COUNTY OF ORANGE
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1998
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1. BANKRUPTCY RECOVERY

Background

On December 6, 1994, the County of Orange (the "County") filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of losses arising out of the Orange County Investment Pool (the "Pool"). The liquidation of the Pool's portfolio resulted in the realization of an investment loss of approximately $1,600,000. This loss was recorded on the County's books and records for Fiscal Year (FY) 1994-1995 with approximately $600,000 allocable (on a pro rata basis) to the County's accounts, and substantially all of the remainder allocable to accounts of non-County Pool participants, such as cities, school districts and special districts.

In response to the bankruptcy, the County prepared a comprehensive recovery plan which incorporated budget cuts, administrative reorganization, a settlement agreement with Pool participants, and various methods to raise funds. The County obtained State legislation consisting of Chapters 745, 746, 747 and 748 of the 1995 Statutes (the "Recovery Statutes") to provide for certain monies received from the State that would have otherwise been allocated to other County funds and other governmental agencies, to be deposited to the County's General Fund. The Recovery Statutes have subsequently been challenged by a local taxpayer. (See Note 21).

The recovery plan, including the Modified Second Amended Plan of Adjustment (the "Plan"), provides that the legislatively redirected revenues, or other County monies in an equivalent amount, together with certain other County revenues will be used to satisfy the principal and interest payments on the Plan of Adjustment Certificates of Participation (the "Plan COPs") and to amortize deficiencies in Class B-11, B-12 and B-13 County-Administered Account claims, as defined in the Plan. The Plan COPs in the amount of $760,800, and Refunding Recovery Bonds (the "Bonds") in the amount of $278,790, represent obligations of the County, payable from the General Fund. The enacted Recovery Statutes provide the Plan COPs holders with statutory liens on the County's motor vehicle license fees and certain sales tax revenues, and further provide that the County may elect to have the amount of these fees and revenues necessary to pay each installment of principal and interest on this borrowing intercepted by the State Controller and paid directly to the trustee of the COPs. In addition, the Bonds are secured by a pledge and intercept of motor vehicle license fees, pursuant to legislation adopted prior to the Recovery Statutes.

The Plan was confirmed by the United States Bankruptcy Court for the Central District of California in its Order Confirming Modified Second Amended Plan of Adjustment entered on May 16, 1996. On June 12, 1996, the Plan became effective and the County emerged from bankruptcy. The County-elected fee and revenue interceptions began in July 1996.

During FY 1996-97, redirected and intercepted revenues were sufficient to pay debt service on the Plan COPs and to pay the annual amount of $800 due on Option B Pool Participant warrants, as well as providing $11,300 of Available Cash (as defined in the Plan) to partially reimburse the County-Administered Accounts (as defined in the Plan) for losses allocated pursuant to the Comprehensive Settlement Agreement. In accordance with the provisions for allocation of Available Cash in the Plan, this amount substantially repaid Class B-11 school participant claims for losses sustained in County-Administered Accounts, such as unapportioned property tax funds.

In FY 1997-98, approximately $6,163 of Available Cash was available to reimburse bankruptcy loss amounts of County-Administered Accounts after payment of debt service on the Plan COPs and after payment of the annual amount of $800 due on Option B Pool Participant warrants. This amount is sufficient to completely reimburse the remaining claims of Class B-11 school participants for losses sustained in County-Administered Accounts, amounting to a total of around $1,499. The remaining $4,664 of Available Cash will be allocated to Class B-12 non-school participant claims and to Class B-13 County funds in accordance with the provisions for allocation of Available Cash in the Plan.

1. BANKRUPTCY RECOVERY (Cont'd)

The County's emergence from bankruptcy and proceeds of the County's Plan COPs, together with other provisions in the Plan and the proceeds of the County's June 12, 1996 approximately $122,000 Refunding Pension Obligations Bonds (Series 1996A), were used to cure the County's defaults under various terms of its debt obligations and to pay debt holders, vendors, employees, certain County-Administered Accounts, and other administrative undisputed claims in total, as well as replenish debt reserves for certain outstanding certificates of participation, fund a litigation reserve, and fund a reserve to pay disputed claims if determined adversely. As of June 30, 1998, there remains approximately $700 of asserted disputed claims which amount is recorded as County obligations in the General Long-Term Debt Account Group. Proceeds remaining from the Plan COPs are expected to be sufficient should payment of these outstanding disputed claims be required.

Pursuit of Pool-Related Litigation

Pursuant to the Plan and court order confirming the Plan, Tom Hayes has been appointed as the Litigation Representative to enforce, prosecute and collect upon Pool Related Claims as defined in the Plan. Net Litigation Proceeds will be distributed as provided for in the Plan. In June 1996, the Litigation Fund was established, and $50,000 of the proceeds from the Plan COPs was deposited in the Litigation Fund in order to fund the litigation effort. This fund is controlled by the Litigation Representative and not the County.

To date there has been extensive investigation and discovery of the events and transactions prior to the bankruptcy that could give rise to claims by the County, primarily focused on brokers who sold securities to the County, brokers who lent the County monies pursuant to reverse repurchase agreements (including those who unlawfully liquidated securities purportedly held as collateral), accountants, attorneys and rating agencies who advised the County in connection with several of its borrowings. As a result of the extraordinary investment losses suffered by the County and the Pool Participants, the claims asserted by the Representative were in excess of $2,000,000. The Representative has announced that to date, conditional settlements totaling $710,000 have been reached and the settling defendants include: Le Boeuf, Lamb, Greene & MacRae LLP, $45,000; KPMG Peat Marwick LLP, $75,000; Merrill Lynch, $420,000; CS First Boston, $52,000; Morgan Stanley/Dean Witter, $70,000; and Nomura Securities $48,000. These settlements are conditional upon court approval and the entry of certain orders limiting the ability of third parties to assert claims against settled parties. The remaining defendants, and other potential defendants, can be expected to assert numerous defenses at trial and through multiple appeals. Litigation of this magnitude and complexity is, by its very nature, lengthy, difficult, expensive, and most importantly, uncertain in outcome. There can be no assurances that additional recoveries, if any, will be material, nor can any assurance be made as to the timing of any recoveries.

FY 1998-99 General Fund Budget

In most respects, the FY 1998-99 General Fund Budget (the "Budget") does not contain significant changes in expenditure appropriations or in revenue sources or amounts from FY 1997-98, with the exception that during FY 1997-98, the Board of Supervisors appropriated $33,900 for early debt repayment from the General Fund's Reserve for Debt Repayment. The Budget was adopted by the Board of Supervisors as a balanced budget on June 30, 1998, and includes all bankruptcy-related debt service payments and related redirected and intercepted revenues.

At the time of the adoption of the 1998-99 Final Budget, General Fund Undesignated Fund Balance was projected to be $56,791. The projected $56,791 carryover estimate was based upon estimated FY 1997-98 revenues and expenditures, since actual amounts were not yet available when the Final Budget was adopted. Of the projected carryover, the Board of Supervisors appropriated $16,000 for Contingencies and increased the Reserve for Debt Repayment by $5,000. Subsequent to the adoption of the Final Budget, the actual General Fund Undesignated Fund Balance of $98,359 was determined.

1. BANKRUPTCY RECOVERY (Cont'd)

The Board of Supervisors then took mid-year budgetary actions to set aside $18,700 for possible retroactive changes in retirement rate cost basis methodology for all County funds. The County plans to revise the cost basis used to determine retirement rates for internal charging purposes. The change would be implemented for FY 1998-99 and represent a substantial savings to County departments, offset by decreased cash flow to the General Fund. The State and Federal claiming agencies requested the County to estimate the cost of a retroactive application of this methodology to FY 1996-97 and FY 1997-98. The County has provided this information and will continue discussion on the issue. (See Note 22).

In addition, $17,800 of additional General Fund Undesignated Fund Balance was set aside for Trial Court funding issues. The County and the Courts have a difference of opinion regarding ownership of a category of fine and fee revenues collected by the Courts. The County believes there is a strong legal basis on which the revenues belong to the County to support the County's annual Trial Court Maintenance of Effort (MOE) payments to the State. General funds are set aside as a contingency against losing ownership of these revenues.

The Board of Supervisors established the Reserve for Debt Repayment in FY 1996-97. Since FY 1996-97, the Board of Supervisors has continued to set aside funds for this reserve during the budget process. With the FY 1998-99 budget increase of $5,000, the total Reserve for Debt Repayment is $21,700 after appropriating $33,900 in FY 1997-98 for early debt payment as previously described. This reserve is intended to be used, at some future date, to reduce County debt levels by defeasing high-coupon County General Fund debt obligations which may have particularly onerous administrative requirements and/or costly legal restrictions.

Management of the County anticipates that, under current revenue funding levels, the County can continue to successfully fund the outstanding debt obligations including debt issued pursuant to the Plan, operate County programs at current acceptable levels without program cuts, and provide increased funding for the debt defeasance reserve.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies of the County of Orange:

A. Reporting Entity

The County is a legal subdivision of the State of California charged with general governmental powers. The County's powers are exercised through an elected five-member Board of Supervisors which, as the governing body, is responsible for the legislative and executive control of the County. The County provides a full range of general government services, including police protection, detention and correction, public assistance, health and sanitation, recreation, library, flood control, waste management, airport management, and general financial and administrative support.

As required by generally accepted accounting principles, these financial statements present the County (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the County's operations, and the County Board of Supervisors is their governing body. Therefore data from these units are combined with data of the primary government. The County has no component units that require discrete presentation. Using the criteria of Government Accounting Standards Board (GASB) Statement 14, management determined the following component units should be blended:

<u>Orange County Flood Control District.</u> The governing body of the District is the County's governing body. Among its duties, it approves the District's budget, determines the District's tax rates, approves contracts, and appoints the management. The District is reported in governmental fund types.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

A. Reporting Entity (Cont'd)

Orange County Development Agency. The governing body of the Agency is the County's governing body. Among its duties, it approves the Agency's budget and appoints the management. The Agency is reported in governmental fund types. Separate financial statements are also issued for this component. Copies of the financial statements can be obtained from Housing & Community Development Accounting.

Orange County Housing Authority. The governing body of the Authority is the County's governing body. Among its duties, it approves the Authority's budget, determines the rates and charges for the use of facilities and appoints the management. The Authority is reported as an expendable trust fund.

Orange County Civic Center Authority. The Authority is a joint powers authority of the County and the City of Santa Ana. It has a five member governing body appointed by the County and the City of Santa Ana. The County has control over operations and responsibility for fiscal management of the Authority. The Authority is fiscally dependent upon the County and provides almost all services entirely to the County. Copies of the financial statements can be obtained from Public Facilities & Resources Department (PFRD) Accounting. The Authority is reported as an expendable trust fund.

Orange County Financing Authority. The Authority is a joint powers authority of the Orange County Development Agency and the Orange County Housing Authority, formed for the purpose of assisting the Orange County Development Agency in financing and refinancing its redevelopment projects and activities. The governing body of the Authority is the County's governing body. The Authority is reported in governmental fund types.

Orange County Special Financing Authority. The Authority is a joint powers authority of the County and the Orange County Development Agency, formed to assist in the refinancing of the County's Teeter Plan program, and in the financing of public capital improvements and other projects. The governing body of the Authority is the County's governing body. Copies of the financial statements can be obtained from the County Executive Office (CEO)/Public Finance Accounting. The Authority is reported in governmental fund types.

Orange County Public Financing Authority. The Authority is a joint powers authority of the County and the Orange County Development Agency, formed to provide financial assistance to the County by financing the acquisition, construction, and improvement of public facilities in the County. The governing body of the Authority is the County's governing body. The Authority is reported as a proprietary fund type.

Orange County Public Facilities Corporation. The corporation has its own five member governing body, which is appointed by the County's governing body, and provides services entirely to the primary government (the County) through the purchase or construction of land and/or facilities which are then leased back to the County. The Corporation is reported in governmental fund types.

County Service Areas, Special Assessment Districts, and Community Facilities Districts. The governing body of County Service Areas, Special Assessment Districts, and Community Facilities Districts ("special districts") is the County's governing body. Among its duties it approves the special districts' budgets, approves parcel fees, and appoints the management. The special districts are reported in governmental fund types.

B. Fund Accounting

The County uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. Fund Accounting (Cont'd)

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary "fund types".

Governmental Fund Types:

General Fund - The general fund is used to account for resources traditionally associated with government and all other resources which are not required legally or by sound financial management to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest, and related costs.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary fund types and trust funds).

Proprietary Fund Types:

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one County department or agency to other County departments or agencies, or to other governmental entities, on a cost-reimbursement basis.

Fiduciary Fund Types:

Trust and Agency Funds - Trust and agency funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the County. When these assets are held under the terms of a formal trust agreement, a pension trust, investment trust, educational investment trust, nonexpendable trust or expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the County is under an obligation to maintain the trust principal. Agency funds are generally used to account for assets that the County holds on behalf of others as their agent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. Fund Accounting (Cont'd)

Account Groups:

General Fixed Assets - The general fixed assets account group is used to account for all fixed assets of the County, other than those accounted for in proprietary funds or similar trust funds.

General Long-Term Debt - The general long-term debt account group is used to account for the unmatured principal of bonds and notes, and other forms of noncurrent or long-term general obligation debt that are not a specific liability of any proprietary fund or similar trust funds.

The County maintains 693 individual funds. Certain similar special revenue, debt service, capital projects, enterprise, and trust and agency funds have been grouped on a functional basis in conformity with generally accepted accounting principles (GAAP) to enhance communication and understanding of the financial statements.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types, nonexpendable trust, pension trust, and investment trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type and similar trust fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is followed for the general, special revenue, debt service, capital projects, expendable trust and agency funds. Revenues and other governmental fund type financial resources increments (i.e., bond issuance proceeds) are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenues which are accrued include real and personal property taxes, sales taxes, motor vehicle in-lieu taxes, fines, forfeitures and penalties, interest, federal and state grants and subventions, charges for current services, and the portion of long-term sales contracts and leases receivable that are measurable and available and where collectibility is assured. Revenues which are not considered susceptible to accrual include penalties on delinquent property taxes and minor licenses and permits.

Most expenditures are recorded when the related fund liabilities are incurred. However, inventory type items are considered expenditures at the time of use and principal and interest expenditures on bonded debt are recorded in the in which they become due for payment. Costs of claims, judgments, compensated employee absences and employer pension contributions are recorded as expenditures during the fiscal year when they would normally be liquidated with expendable available financial resources. The related long-term obligation is recorded in the general long-term debt account group at year end. Commitments such as purchase orders and contracts for materials and services are recorded as encumbrances. Reservations of fund balance are created for encumbrances outstanding.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. Basis of Accounting (Cont'd)

The accrual basis of accounting is followed for enterprise, internal service, nonexpendable trust, pension trust, and investment trust funds. Generally, revenues are recognized when earned and expenses are recognized when incurred. Grants are recorded as nonoperating revenues when earned, except for those restricted for capital acquisitions, which are recorded as contributions to equity. Under Governmental Accounting Standards Board (GASB) Statement No. 20, the County has elected not to apply Financial Accounting Standards Board provisions issued after November 30, 1989.

D. Budget Adoption and Revision

No later than October 2nd of each year, after conducting public hearings concerning the proposed budget, the County Board of Supervisors adopts a budget in accordance with Government Code Sections 29000-29144 and 30200. The County publishes the results of this initial budgeting process in a separate report, the "Final Budget," which specifies all accounts established within each fund-agency unit (a collection of account numbers necessary to fund a certain division or set of goal-related activities).

The governmental funds are comprised of multiple fund-agency units, with the exception of the "Parking Facilities," "Public Library," "Taxable Note Repayment," "Restricted Refinancing Proceeds," "Recovery Certificates of Participation," "Schedule I County-Administered Accounts," and "Deferred Compensation Reimbursement" special revenue funds; the "Public Facilities Corporation Bonds, Master Lease," "Pension Obligation Bonds," "Refunding Recovery Bonds," "Orange County Special Financing Authority," and "Recovery Certificates of Participation" debt service funds; and the "Public Library" capital projects fund, which are comprised of individual fund-agency units.

Each year the initial adopted budget is increased for unanticipated revenues and changes in Fund Balance, offset by an equal amount of increased appropriations for new reimbursement contracts not in the original budget. Department heads are authorized to approve appropriation transfers within a fund-agency unit. However, appropriation transfers between fund-agency units require approval of the Board of Supervisors. Accordingly, the lowest level of budgetary control exercised by the County's governing body is the fund-agency unit level which represents a Department or an Agency. Final appropriations reflected in the "Revised Budget" columns of the Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on Budgetary Basis - All Governmental Fund Types include supplemental appropriations of $185,117.

Annual budgets were adopted for the individual funds comprising the following governmental fund type fund categories (listed by fund type/fund category):

General

Special Revenue
- Parking Facilities
- Roads
- Public Library
- Redevelopment Agency
- Flood Control District
- Harbors, Beaches and Parks District
- Service Areas, Lighting and Maintenance Districts
- Other Environmental Management
- Other Public Protection
- Community Services
- Taxable Note Repayment
- Designated Special Revenue Funds
- Restricted Refinancing Proceeds

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. Budget Adoption and Revision (Cont'd)

Special Revenue (Cont'd)
- Recovery Certificates of Participation
- Schedule I County-Administered Accounts
- Plan of Adjustment Available Cash
- Deferred Compensation Reimbursement

Debt Service
- Redevelopment Agency Bonds
- General Obligation, Other Revenue Bonds
- Pension Obligation Bonds
- Refunding Recovery Bonds
- Orange County Special Financing Authority

Capital Projects
- Criminal Justice Facilities
- Public Library
- Flood Control District
- Redevelopment Agency
- Special Assessment Districts and Service Areas

Excluded from the Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on a Budgetary Basis are the following governmental fund type fund categories for which annual budgets were neither legally required nor adopted (listed by fund type/fund category):

Debt Service
- Public Facilities Corporation Bonds, Master Lease
- Recovery Certificates of Participation

E. Encumbrances and Appropriations

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes in the General, Special Revenue and Capital Projects Funds. Encumbrance accounting is utilized to assure effective budgetary control and accountability. Encumbrances outstanding at year-end represent the estimated amount of the expenditures which will ultimately result if the unperformed contracts in process at year-end are completed. Encumbrances at year-end do not constitute GAAP basis expenditures or liabilities. Only unencumbered, unexpended appropriations lapse at year-end and encumbrances outstanding at that time are reported as reservations of fund balance for subsequent year expenditures. For budgetary purposes, expenditures plus encumbrances cannot legally exceed budgeted appropriations.

F. Cash and Investments

The County maintains the Orange County Treasurer's Money Market Commingled Investment Pool (the County Pool) for the purpose of increasing interest income through pooled investment activities. The County also maintains the Orange County Treasurer's Money Market Educational Investment Pool (the Educational Pool), a separate cash and investments pool for the County public school districts. (See Note 3).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

F. Cash and Investments (Cont'd)

Effective July 1, 1997 the County adopted the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The Statement requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet. The Statement further requires all investment income, including changes in the fair value of investments, to be reported as revenue in the operating statement. Management has reviewed the cumulative effect of applying this Statement on prior years and has not restated prior financial statements for July 1, 1997 beginning fund balances as the effect is considered immaterial.

The County has stated required investments at fair value in the accompanying financial statements. Management contracts with an outside service to provide pricing for the fair value of investments in the portfolio. The investments are marked to market and the net asset value is calculated for both the County Pool and the Educational Pool each business day. Securities listed or traded on a national securities exchange are valued at the last quoted sales price. Short term money market instruments are valued using an average of closing prices and rate data commonly known as matrix pricing.

The County has not provided or obtained any legally binding guarantees during the year to support the value of participants' shares in the pool.

The pools value participants' shares on an amortized cost basis. Specifically, the pool distributes income to participants based on their relative participation during the period. Income is calculated based on (1) realized investments gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This method differs from the fair value method used to value investments in these financial statements because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the pools' investments. At June 30, 1998, there is no material difference between pool participants' shares valued on an amortized cost basis compared to fair value.

G. Inventory of Materials and Supplies

Inventories consist of expendable materials and supplies held for consumption. Inventories are valued at cost determined on a moving weighted average basis. Applicable fund balances are reserved for amounts equal to the inventories on hand at the end of the fiscal year as these amounts are not available for appropriation and expenditure. The costs of inventory items are recorded as expenditures when issued to user departments/agencies.

H. Land and Improvements Held for Resale

These assets, held by the County's Development Agency, are valued at the lower of cost or estimated net realizable value.

I. General Fixed Assets

The General Fixed Assets Account Group records, at cost, the fixed assets which are not accounted for in an enterprise, internal service or similar trust funds. Such assets include land, buildings, building improvements, furniture, fixtures and equipment. Gifts and contributions of fixed assets are recorded at fair market value when received. No depreciation is provided on general fixed assets. Expenditures for streets, roads, bridges, curbs, gutters, sidewalks, flood channels, lighting systems, and similar assets are not capitalized, because they are immovable and of value only to the County.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

J. Property, Plant and Equipment of Enterprise and Internal Service Funds

Fixed assets purchased by the enterprise and internal service funds are capitalized at cost, while contributed assets are recorded at their fair market value when received. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Depreciation of contributed assets is netted against contributed capital. Estimated useful lives of property, plant and equipment are as follows:

Structures and Improvements	10 to 50 years
Equipment	2 to 20 years

K. Self-Insurance

The County is self-insured for general and automobile liability and workers' compensation claims, and for claims arising under the group health indemnified plans, group salary continuance plan, group dental plan, and unemployment benefits program. Liabilities are accrued based upon estimated future amounts to be paid on known claims and incurred but not reported claims. (See Note 20).

L. Property Taxes

The provisions of the California State Revenue and Taxation Code govern assessment, collection, and apportionment of real and personal property taxes. Real and personal property taxes are determined by applying approved property tax rates to the assessed value of properties as established by the County Assessor, in the case of locally assessed property, and as established by the State Board of Equalization, in the case of State-assessed public utility unitary and operating non-unitary property. Property taxes are levied annually, with the exception of the supplemental property taxes, which are levied when supplemental assessment events, such as sales of property or new construction, take place.

The County collects property taxes on behalf of all property tax-receiving agencies in Orange County. Property tax-receiving agencies include the school districts, cities, community redevelopment agencies, independently governed special districts (not governed by the County Board of Supervisors), special districts governed by the County Board of Supervisors, and the County General Fund.

Property taxes receivable are recorded as of the date levied in property tax unapportioned funds, which are classified as agency funds. When collected, the property taxes are deposited into the County Treasury into the property tax unapportioned funds, where they are held in the unapportioned taxes liability accounts pending periodic apportionment to the taxing agencies. The property tax unapportioned funds are included in the agency funds category of the County's general purposes financial statements because the unapportioned taxes are collected and held on behalf of other governmental agencies.

Property tax collections are apportioned to the tax-receiving agencies periodically from the tax unapportioned funds based on various factors including statutory requirements; materiality of collections received; tax delinquency dates; the type of property tax roll unapportioned fund (secured, unsecured, supplemental, delinquent secured, delinquent unsecured, delinquent supplemental, homeowners' property tax subvention, or public utility); and cash flow needs of the tax-receiving agencies.

Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within the fiscal year and are distributed within 60 days after the fiscal year-end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year-end, and are collected but not distributed within 60 days after the fiscal year-end.

Unsecured and supplemental property tax levies that are due within the fiscal year but are unpaid at fiscal year-end are recorded as deferred revenue. The County uses the direct write-off method to recognize uncollectible taxes receivable.

(Dollar Amounts in Thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

L. Property Taxes (Cont'd)

The County also records collections of disputed property taxes, such as those paid for properties for which the values have been appealed to the local Assessment Appeals Boards, within the unapportioned tax liability accounts in the property tax unapportioned funds. Upon final disposition of the appeals and disputes, the amounts are either refunded to taxpayers or distributed to the tax-receiving agencies. As of June 30, 1998, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 1.32 percent of the combined beginning secured and unsecured property tax roll charge.

The following are significant dates on the property tax calendar:

	California Revenue & Taxation Code Section
Supplemental assessments are effective on the 1st day of the month following the new construction or ownership change.	75.41
Property tax lien date was March 1 until January 1, 1997. Lien date is now January 1 of every year.	2192
Unsecured taxes on the roll as of July 31 are delinquent August 31.	2922
Assessor delivers roll to Auditor-Controller July 1.	616, 617
Tax roll is delivered to the Tax Collector on or before the levy date (the 4th Monday in September).	2601
Secured tax payment due dates are:	
1st Installment - November 1, and	2605
2nd Installment - February 1.	2606
Secured tax delinquent dates (last day to pay without a penalty) are:	
1st Installment - December 10, and	2617
2nd Installment - April 10.	2618
Declaration of default for unpaid taxes occurs July 1.	3436
Power to sell is effective five years after tax default.	3691

M. Compensated Employee Absences

Compensated absences (vacation, compensatory time off, and sick leave) are accrued as an expense and liability in the proprietary fund when incurred. In the governmental fund types, only those amounts that are expected to be liquidated with expendable available financial resources are accrued as current year expenditures. Compensated absences that exceed this amount are reported in the General Long-Term Debt Account Group and are not recorded as expenditures.

The estimate recorded at June 30, 1998, in the General Long Term Debt Account Group is $49,962 compared with $51,816 at June 30, 1997. Most of this amount will be ultimately paid from the General Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

N. Total Columns on General Purpose Financial Statements

The "Total" columns on the accompanying general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. They do not represent and are not comparable to consolidated financial information. Data in these columns do not purport to present financial position, results of operations, or cash flows of the County in conformity with GAAP.

O. Statement of Cash Flows

For purposes of the statement of cash flows, the County considers "Pooled Cash/Investments" and "Imprest Cash Funds" as cash and cash equivalents. Additionally, "Cash Equivalents/Specific Investments" is considered a cash equivalent to the extent that these short-term investments mature within three months of original purchase. Cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible to cash or mature within three months of original purchase.

P. Effect of New Pronouncements

In November 1994, GASB issued Statement No. 25*, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,"* effective for periods beginning after June 15, 1996. The Statement establishes financial reporting standards for defined benefit pension plans and for the notes to the financial statements of defined contribution plans of state and local governmental entities. For Fiscal Year (FY) 1996-97, the County held that its Defined Benefit Retirement Plan for less than half-time and extra help employees did not have a material impact on the financial statements compared with the contributions to the Orange County Employees' Retirement System (OCERS), and did not implement GASB 25. Beginning with FY 1997-98, the County is presenting this plan's financial statements in conformance with GASB 25.

In November 1994, GASB issued Statement No. 27, *"Accounting for Pensions by State and Local Governmental Employers."* This Statement establishes standards for the measurement, recognition, and display of pension expenditures/expense and related liabilities, assets, note disclosures and, if applicable, required supplementary information in the financial reports of state and local governmental employers. It is effective for periods beginning after June 15, 1997. Beginning with FY 1997-98, the County implemented the requirements of GASB 27.

In March 1997, GASB issued Statement No. 31*, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."* This Statement establishes accounting and reporting standards for all investments held by governmental external investment pools. It also establishes fair value standards for investments in (a) participating interest-earning investment contracts, (b) open-end mutual funds, (c) debt securities, and (d) equity securities, option contracts, stock warrants, and stock rights that have readily determinable fair values. The provisions of this Statement are effective for periods beginning after June 15, 1997. Beginning with FY 1997-98, the County is presenting its financial statements in conformance with GASB 31.

In October 1997, GASB issued Statement No. 32, *"Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans."* On January 1, 1998, the County early implemented GASB No. 32. Implementation required the County to transfer ownership of the Plan assets from the County to the individual participants by placing the assets in trust accounts for the exclusive benefit of the participants and their beneficiaries. The County was required to change its accounting for the Deferred Compensation Plan to exclude the plan from the financial statements, since the County no longer has custody of nor directs or accounts for the Plan investments. Prior to implementation, the Deferred Compensation Plan had been presented as an agency fund in the financial statements. The effect to the agency fund type was to remove $232,390 from the Combined Balance Sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

P. Effect of New Pronouncements (Cont'd)

In October 1998, GASB issued Technical Bulletin (TB) No. 98-1, *"Disclosures about Year 2000 Issues."* The TB establishes the types of disclosures that should be presented in the financial statements about compliance with Year 2000 (Y2K) issues for a government's internal computer systems and other electronic equipment. TB 98-1 requires a governmental entity to make three basic disclosures: (a) significant amounts of resources committed to Y2K compliance; (b) a general description of how it is affected by the Y2K issue; and (c) information about its stage of readiness. The provisions of TB 98-1 are effective for financial statements on which the auditor's report is dated after October 31, 1998, and will terminate for financial statements for periods ending after December 31, 1999, unless systems and other equipment are not Y2K compliant as of the report's balance sheet date. Beginning with FY 1997-98, the County implemented the provisions of TB 98-1.

Q. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Where significant estimates have been made in preparing these financial statements, they are described in the applicable footnotes.

3. DEPOSITS AND INVESTMENTS

Deposits and investments (including repurchase agreements) totaled $2,887,809 as of June 30, 1998. Each fund's portion of this total is reflected in the balance sheet accounts entitled "Pooled Cash/Investments, Cash Equivalents/Specific Investments, Imprest Cash Funds, Restricted Cash and Investments with Trustee, and Investments."
The Treasurer maintains the County Pool and the Orange County Treasurer's Money Market Educational Investment Pool (the Educational Pool) for the County and other non-County entities for the purpose of increasing interest income through pooled investment activities. These external investment pools contain deposits, repurchase agreements, and other investments with an average maturity of less than 90 days. Interest is apportioned to individual funds monthly based on the average daily balances on deposit with the Treasurer. All interest income earned has been recognized in the fund reporting the investments. Income assigned to another fund due to a management decision is recognized in the fund that reports the investments and is reported as an operating transfer to the recipient fund.

A. Deposits

Monies must be deposited in state or national banks, or state or federal savings and loan associations located within the State. The County is authorized to use demand accounts and certificates of deposit. Additionally, monies deposited at national banks are used for compensating balances.

Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, they may be held by the trust department of the same institution. Written custodial agreements are required that provide, among other things, that the collateral securities are held separate from the assets of the custodial institution. The pledge to secure deposits is administered by the California Superintendent of Banks.

Collateral is required for demand deposits at 110 percent of all deposits not covered by federal deposit insurance if obligations of the United States and its agencies, or obligations of the State or its municipalities, school districts, and district corporations are pledged. Collateral of 150 percent is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the County.

3. DEPOSITS AND INVESTMENTS (Cont'd)

A. Deposits (Cont'd)

At year-end, the carrying amount overdraft of the County's demand deposits was $52,944. The related bank balance for the County's demand deposits was $28,230, of which $300 was insured by FDIC insurance with the remainder collateralized as described above. The overdraft is a reflection of the outstanding checks as of June 30, 1998. The County had $347,194 in maturing securities the following business day to cover these outstanding checks. In addition, the County had imprest cash funds in the amount of $2,520 of which $1,920 was insured by FDIC insurance with the remainder collateralized as described above.

The Treasurer has established separate bank and custody accounts for the County's school participants.

B. Investments

The County's investment policies are governed by State statutes, Board of Supervisors' resolutions, the respective bond documents, trust agreements, and other contractual agreements.

External Investment Pools

The County Treasurer has a written Investment Policy Statement (IPS) specifically for the separately managed County and Educational Investment Pools. The assets in the Pools are required by the IPS to consist of the following investments and maximum permissible concentrations based on market value: U.S. Treasury instruments backed by the full faith and credit of the United States government (100%); obligations issued or guaranteed by agencies of the United States government (100%); commercial paper of a high rating (A1/P1) provided by Moody's Investors Service or Standard & Poor's with further restrictions regarding issuer size and maturity (30%) (split-rated issuers may comprise up to 3%); negotiable certificates of deposit issued by a nationally or state-chartered bank or state or federal association or by a state-licensed branch of a foreign bank with at least one billion dollars in assets (30%); bankers' acceptances (40%); money market funds (20%); State of California or municipal debt (10%); "AA" or better receivable-backed securities (10%); medium-term notes (30%); and repurchase agreements collateralized by securities at 102% of the cost adjusted no less frequently than weekly (50%).

Repurchase agreements are limited to a three-month maturity and can only be entered into with entities prescribed in California Government Code Sections 53635 and 53601. The securities underlying the agreements must be delivered to the County's custodial banks. The County enters into written master repurchase agreements that outline obligations of both the County and the dealers.

The County also enters into written contracts with custodial institutions that outline the basic responsibilities of those institutions for securities underlying the repurchase agreements. These custodial contracts and the County's procedures for monitoring the securities are similar to those for collateral on deposits.

All permitted investments are required to comply in every respect with California Government Code Sections 53601 and 53635 (governing the investment of public funds) and other relevant California Government Code provisions.

The IPS expressly prohibits leverage, reverse repurchase agreements, structured notes or any volatile derivatives. The average maturity of the investment pool will not exceed 90 days. The maximum maturity of any portfolio instrument will be thirteen months or less. Under the IPS, no more than 5% of the total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies or government-sponsored enterprises. No more than 10% may be invested in one Money Market Mutual Fund. All investments will be United States dollar denominated.

COUNTY OF ORANGE
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 1998
(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Cont'd)

B. Investments (Cont'd)

Treasury oversight is conducted by the County Treasury Oversight Committee, established in December 1995, which consists of the CEO, the County Auditor-Controller, the County Superintendent of Schools and a public member. In addition, Fitch IBCA, Inc. ("Fitch") conducts a quarterly review of IPS compliance according to agreed upon procedures. On March 10, 1997, and again on June 3, 1998, Fitch announced the Pools' ratings of "AAA/V1+." The County and Educational Pools are not registered with the Securities and Exchange Commission.

Community facility districts, assessment districts and public school districts are required by legal provisions to deposit their funds with the County Treasurer. The Educational Pool consists entirely of public school districts and therefore includes 100 percent involuntary participants. At June 30, 1998, the County Pool includes approximately four percent external involuntary participant deposits for certain community facility districts, assessment districts, and certain bond related funds for public school districts.

Condensed Financial Statements

In lieu of separately issued financial statements for the external pools, condensed financial statements for both pools are presented below as of and for the year ended June 30, 1998:

	County Pool	Educational Pool	Total
Statement of Net Assets			
Net assets held for pool participants	$ 1,488,014	$ 901,358	$ 2,389,372
Equity of internal pool participants	$ 1,401,651	$ --	$ 1,401,651
Equity of external pool participants	86,363	901,358	987,721
Total Equity	$ 1,488,014	$ 901,358	$ 2,389,372
Statement of Changes in Net Assets			
Net assets at July 1, 1997	$ 1,542,930	$ 766,697	$ 2,309,627
Net change in investments by pool participants	(54,916)	134,661	79,745
Net Assets at June 30, 1998	$ 1,488,014	$ 901,358	$ 2,389,372

Summary External Pool Financial Disclosures

Selected summary disclosures for each external pool as of June 30, 1998 are presented below:

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Days to Maturity
County Pool					
Bankers' Acceptances	$ 134,337	$ 136,600	Discount	07/06/98-10/27/98	55
Commercial Paper	449,483	452,194	Discount	07/01/98-08/20/98	18
Repurchase Agreements	101,000	101,000	5.75%	07/01/98	1
Negotiable Certificates of Deposit	382,902	378,300	5.55-5.91%	07/07/98-04/06/99	94
Medium-Term Notes	456,202	451,165	5.37-10.00%	07/01/98-06/21/99	175
Money Market Mutual Funds	188	188	Variable	07/01/98	1
	$ 1,524,112	$ 1,519,447			86

COUNTY OF ORANGE
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 1998
(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Cont'd)

B. Investments (Cont'd)

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Days to Maturity
Educational Pool					
U.S. Government Agencies	$ 13,938	$ 14,000	Discount	07/25/98	24
Bankers' Acceptances	64,394	65,600	Discount	07/20/98-10/27/98	58
Commercial Paper	272,723	274,040	Discount	07/01/98-08/20/98	18
Repurchase Agreements	35,000	35,000	5.75%	07/01/98	1
Negotiable Certificates of Deposit	264,066	260,750	5.54-5.98%	07/09/98-04/16/99	101
Medium-Term Notes	269,888	266,080	5.37-9.87%	07/01/98-06/01/99	171
Money Market Mutual Funds	328	328	Variable	07/01/98	1
	$ 920,337	$ 915,798			87

Level of Custodial Credit Risk

Investments are categorized below as prescribed by GASB Statement No. 3 to indicate the level of custodial credit risk assumed by the County at year-end. Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments with securities held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments with securities held by the counterparty, or by its trust department or agent but not in the County's name.

LEVEL OF CUSTODIAL CREDIT RISK

	CATEGORY			NOT SUBJECT TO	FAIR
	1	2	3	CATEGORIZATION	VALUE
County Treasurer's Money Market Commingled Pool:					
Repurchase Agreements	$ 101,000	$ --	$ --	$ --	$ 101,000
Commercial Paper	449,483	--	--	--	449,483
Bankers' Acceptances	134,337	--	--	--	134,337
Medium-Term Notes	456,202	--	--	--	456,202
Negotiable Certificates of Deposits	382,902	--	--	--	382,902
Money Market Mutual Funds	--	--	--	188	188
Total Investments in County Treasurer's Money Market Commingled Pool	1,523,924	--	--	188	1,524,112
County Treasurer's Educational Investment Pool:					
Repurchase Agreements	35,000	--	--	--	35,000
U.S. Government Securities	13,938	--	--	--	13,938
Commercial Paper	272,723	--	--	--	272,723
Bankers' Acceptances	64,394	--	--	--	64,394
Medium-Term Notes	269,888	--	--	--	269,888
Negotiable Certificates of Deposits	264,066	--	--	--	264,066
Money Market Mutual Funds	--	--	--	328	328
Total Investments in County Treasurer's Educational Investment Pool	$ 920,009	$ --	$ --	$ 328	$ 920,337

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Cont'd)

B. Investments (Cont'd)

LEVEL OF CUSTODIAL CREDIT RISK

	CATEGORY 1	CATEGORY 2	CATEGORY 3	NOT SUBJECT TO CATEGORIZATION	FAIR VALUE
Specific Investments:					
U.S. Government Securities	$ 5,647	$ --	$ --	$ --	$ 5,647
Commercial Paper	13,422	--	--	--	13,422
Bankers' Acceptances	1,985	--	--	--	1,985
Medium-Term Notes	12,043	--	--	--	12,043
Negotiable Certificates of Deposits	6,412	--	--	--	6,412
Money Market Mutual Funds	--	--	--	33,668	33,668
Guaranteed Investment Contracts	--	--	--	21,799	21,799
Total of Specific Investments	39,509	--	--	55,467	94,976
Investments with Trustees:					
Repurchase Agreements	--	8,500	--	--	8,500
U.S. Government Securities	--	10,397	--	--	10,397
Mutual Funds	--	--	--	202,328	202,328
Guaranteed Investment Contracts	--	--	--	177,583	177,583
Total Investments with Trustees	--	18,897	--	379,911	398,808
Total Investments	$ 2,483,442	$ 18,897	$ --	$ 435,894	$ 2,938,233

RECONCILIATION OF DEPOSITS AND INVESTMENTS

		Total
Total Cash and Investments - Note 3:		
Total Investments		$ 2,938,233
Total Deposits - Carrying Amount Overdraft		(52,944)
Imprest Cash Funds		2,520
Total Cash and Investments - Note 3		$ 2,887,809
Total Cash and Investments - Combined Balance Sheet * :		
Pooled Cash/Investments		$ 2,381,550
Specific Investments:		
Cash Equivalents	$ 27,619	
Other Specific Investments	72,343	99,962
Imprest Cash Funds		2,520
Restricted Cash and Investments with Trustee		403,777
Total Cash and Investments - Combined Balance Sheet *		$ 2,887,809

*Amounts in the Combined Balance Sheet differ from amounts in the "Level of Custodial Credit Risk" schedule because that schedule is not required to report on deposits, overdraft or imprest cash which are reported in the Combined Balance Sheet.

(Dollar Amounts in Thousands)

4. CHANGES IN GENERAL FIXED ASSETS

The Schedule of Changes in General Fixed Assets includes general fixed assets of the County other than those accounted for in proprietary funds or similar trust funds. Additions and retirements in the County's general fixed assets during the fiscal year were as follows:

	Balance July 1, 1997	Additions	Retirements	Balance June 30, 1998
Land	$ 232,845	$ 3,413	$ 2,227	$ 234,031
Structures and Improvements	545,691	1,426	957	546,160
Equipment	175,304	46,452	52,910	168,846
Construction in Progress	134,345	19,554	8,778	145,121
Total	$ 1,088,185	$ 70,845	$ 64,872	$ 1,094,158

During FY 1997-98, responsibility for the Trial Courts was shifted from the County to the State. As a result, $13,325 of equipment was included in the retirements in order to comply with the change in responsibility. (See Note 16).

Construction in progress is composed of the following:

Project Title	Project Authorization	Expenditures to Date	Committed	Remaining Authorization
Central Court House Remodel	$ 5,056	$ 1,198	$ 4	$ 3,854
Central Courthouse Seismic Retrofit	5,465	1,683	--	3,782
CFD 87-SE Library Construction	5,662	1,596	--	4,066
Civic Center Development Report & Design	12,091	9,541	12	2,538
HCA Remodel 1719/1725 W 17th Street	12,068	7,550	--	4,518
Joplin-Wastewater System	5,375	355	273	4,747
Muni/South - 5 Court Additional Design	6,213	1,415	--	4,798
New Communications Center	16,751	1,303	--	15,448
New Criminal Court Facility	5,224	3,947	--	1,277
New South Court Facility	5,049	100	2	4,947
Newport Harbor Headquarters Building	6,417	852	2,356	3,209
Probation-Juvenile Hall 30 Bed Expansion/Security Fence	13,368	3,699	362	9,307
Theo Lacy Jail Expansion	218,079	70,401	15,914	131,764
Upper Newport Bay Coastal Development Plan	21,873	1,987	3,223	16,663
All Other Projects *	105,647	39,494	2,583	63,570
Total	$ 444,338	$ 145,121	$ 24,729	$ 274,488

* "All Other Projects" represents projects with individual appropriations of less than $5 million.

(Dollar Amounts in Thousands)

5. COUNTY PROPERTY ON LEASE TO OTHERS

The County has noncancelable operating leases for certain buildings which are not material to the County's general operations. The Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires, and the Waste Management Enterprise Fund derives revenue from a noncancelable operating lease with a synthetic fuels corporation. The Enterprise Funds' property under operating leases, consisting primarily of structures and improvements, at June 30, 1998, approximates $72,508.

The County's General Fund, Special Revenue Funds and Enterprise Funds lease real property to others under operating lease agreements for recreational boating, retail, restaurant, and other commercial operations. Future minimum rentals to be received under these noncancelable operating leases as of June 30, 1998, are as follows:

	General Fund	Special Revenue Funds	Enterprise Funds
FY 1998-1999	$ 57	$ 5,939	$ 26,227
FY 1999-2000	56	5,083	26,190
FY 2000-2001	54	3,978	18,259
FY 2001-2002	54	2,631	15,365
FY 2002-2003	54	2,436	15,331
Subsequent Years	71	44,050	46,900
Total future minimum rentals	$ 346	$ 64,117	$ 148,272

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately $11 (General Fund), $3,455 (Special Revenue Funds), and $13,952 (Enterprise Funds) for the year ended June 30, 1998.

6. LONG-TERM OBLIGATIONS

General Obligation Bonds Payable

General obligation bonds are not collateralized. Revenue for retirement of these bonds is provided from ad valorem taxes on property within the County or the district of the governmental unit issuing the bonds.

The amount of bonded indebtedness the County can incur is limited by law to 1.25 percent of the last equalized assessment property tax roll. At June 30, 1998, the statutory limit was approximately $2.3 billion.

General obligation bonds outstanding and related activity for the year ended June 30, 1998 were as follows:

Description	Balance July 1, 1997	Retirements	Balance June 30, 1998
County Improvement Serial bonds:			
Date Issued: July 1, 1957			
Interest Rates: 1.00% to 4.25%			
Original Amount: $7,510			
Maturing in installments through July 1, 1997	$ 200	$ (200)	$ --

6. LONG-TERM OBLIGATIONS (Cont'd)

Revenue Bonds Payable, Certificates of Participation, and Master Lease Agreements

The County has issued various Certificates of Participation (COPs). These certificates represent the proportionate interest in the rights of the registered owners thereof in lease payments to be made by the County pursuant to lease agreements with the Orange County Public Facilities Corporation (OCPFC) for the right and use of occupancy by the County of certain real property, together with all buildings and other improvements thereon (collectively the "leased facilities"). These financings are shown as OCPFC revenue bonds and are secured by the leased facilities. The outstanding OCPFC balance includes $3,280 in the Telephone Internal Service Fund. Revenue for interest payments and bond retirements is serviced by the Telephone Internal Service Fund; the remainder is serviced by revenues generated from lease payments made by the General Fund on the leased facilities. The General Fund is reimbursed for a portion of these lease payments by other County funds.

Airport Enterprise Fund revenue bonds are secured and serviced primarily by a pledge of the net revenues of the Airport and its rights to receive net revenues.

Orange County Financing Authority and the Orange County Development Agency (OCDA) revenue bonds are secured and serviced by a pledge of OCDA's allocation of property taxes derived from the total incremental taxable value of properties within the redevelopment areas.

Master Lease Equipment Obligations are serviced by base rental payments on acquired equipment. The outstanding Master Lease Equipment Obligations balance includes $459 in the Telephone Internal Service Fund.

Refunding Recovery Bonds and COPs are secured by a pledge of certain motor vehicle license fees and sales tax collected by the State of California and allocated to the County. The County has elected to participate in an "intercept program," whereby the State Controller pays motor vehicle license fees and sales tax directly to a trustee who pays principal and interest on the bonds and COPs.

Orange County Special Financing Authority (OCSFA) Teeter Plan Revenue Bonds are limited obligations of OCSFA payable solely from revenues consisting primarily of delinquent tax payments to be made by taxpayers under the County Teeter Plan program. These bonds are secured by an irrevocable letter of credit for $47,000 issued by the Industrial Bank of Japan. As of June 30, 1998, there were no outstanding draws on the letter of credit.

Pension Obligation Bonds (POBs) are serviced from any legally available monies of the County. Such available monies include taxes, income, cash receipts and other monies which are received for the General Fund which are generally available for the payment of current expenditures and other obligations of the County.

Orange County Public Financing Authority (OCPFA) Waste Management System Refunding Revenue Bonds are limited obligations of OCPFA payable solely from specified net operating revenues of the Waste Management System.

In prior years, various financing issues have been advance refunded. These are considered defeased, and the long-term debt liability has been removed from the related General Long-Term Debt Account Group and Enterprise Funds. At June 30, 1998, $268,245 of defeased debt remained outstanding.

The County has not timely complied with certain debt covenants of two debt issues requiring timely submission of financial reports to the trustee; however, as of June 30, 1998, all financial reports have been submitted. The County will be modifying the terms of the covenants with the trustee in order to match the County's operating cycle.

(Dollar Amounts in Thousands)

6. LONG-TERM OBLIGATIONS (Cont'd)

During FY 1997-98, the County issued the following new long-term obligations:

1997 Certificates of Participation - Superior Court Integrated Court Management System Project

In July 1997, the County issued $7,830 in 1997 Certificates of Participation, Superior Court Integrated Court Management System (ICMS) Project with interest rates ranging from 4.50% to 5.00%. These certificates represent the interests in the rights of the registered owners thereof in base rental payments to be made by the County under lease agreements with Chelsea Leasing Corporation (the Lessor), a California corporation, for the right of possession and use by the County of certain computer equipment (the project). This financing is shown as County COPs and is secured by the project. These certificates were issued to provide funds to refinance certain computer equipment purchased by the County pursuant to an Equipment Lease Purchase Agreement, dated as of April 9, 1996, between the Lessor and the County and finance the acquisition and installation of certain computer hardware, operating software and applications software as well as pay costs associated with the financing. The Certificates are serviced by base rental payments on the acquired equipment. The lease payments are paid from the County's General Fund and reimbursed by the Superior Court.

Waste Management System Enterprise Fund

In November 1997, the Waste Management System Enterprise Fund issued $77,300 in revenue bonds, with interest rates ranging from 4.375% to 5.75%, to advance refund the 1988 Waste Management Certificates of Participation, ranging from 6.8% to 7.875% which were originally issued on December 1, 1988. The bonds were issued at a net premium of $2,077 (after amortization of $113). The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $7,274. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, this difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2013 using the effective interest method. The Waste Management System completed the advance refunding to reduce its total debt service payments over the next 17 years by $22,764 and to obtain an economic gain (difference between the present value of the old and new service payments) of $17,128.

Teeter Plan Revenue Bond Remarketing

The $20, 625 1995 Series B Bonds underwent a mandatory tender on November 1, 1997 and were remarketed and converted from fixed rate bonds at 5.85% to variable rate bonds. After the conversion, interest rates, determined on a weekly basis, have ranged from 3.20% to 4.70%, payable monthly.

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 1998 were as follows:

Description	Balance July 1, 1997	Issuances, Discount Amortization and Accretions	Assignments/ Retirements	Balance June 30, 1998
General Long-Term Debt Account Group:				
Orange County Public Facilities Corporation Revenue Bonds:				
Date Issued: July 1, 1986				
Interest Rate: 6.75% to 7.50%				
Original Amount: $36,965				
Redeemed January 1, 1998.	$ 800	$ --	$ (800)	$ --

COUNTY OF ORANGE
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 1998
(Dollar Amounts in Thousands)

6. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 1997	Issuances, Discount Amortization and Accretions	Assignments/ Retirements	Balance June 30, 1998
Master Lease Schedule No. 2, 1990 Equipment Project Purchaser Certificates: Date Issued: January 3, 1991 Interest Rate: 7.00% Original Amount: $16,475 Maturing in installments through September 1, 2000.	$ 6,016	$ - -	$ (1,501)	$ 4,515
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: August 1, 1991 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB) To refund prior December 22, 1987 bond issue Interest Rate: CIB - 4.40% to 6.75% Interest Rate: CAB - 6.85% to 7.05% Original Amount: CIB - $24,495 Original Amount: CAB - $9,084 Maturing in installments through December 1, 2018.	29,780	1,042	(1,610)	29,212
Orange County Financing Authority Revenue Bonds Series A: Date Issued: June 1, 1992 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB) To refund prior June 1, 1989 Orange County Development Agency bond issue Interest Rate: CIB - 4.50% to 6.50% Interest Rate: CAB - 6.50% to 6.55% Original Amount: CIB - $27,150 Original Amount: CAB - $932 Maturing in installments through September 1, 2022.	27,747	442	(155)	28,034
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: June 1, 1992 and delivered July 7, 1992 to refund prior April 1, 1989 bond issue interest Rate: 4.70% to 6.375% Original Amount: $102,735 Maturing in installments through June 1, 2019.	93,255	--	(2,170)	91,085

(Dollar Amounts in Thousands)

6. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 1997	Issuances, Discount Amortization and Accretions	Assignments/ Retirements	Balance June 30, 1998
Orange County Financing Authority **Revenue Bonds Series B:** Date Issued: July 1, 1992 Interest Rate: 4.20% to 7.40% Original Amount: $3,185 Maturing in installments through September 1, 2000.	$ 1,800	$ --	$ (405)	$ 1,395
Orange County Public Facilities Corporation Revenue Bonds **Master Lease Program:** Date Issued: February 1, 1993 Interest Rate: 3.40% to 5.50% Original Amount: $24,780 Maturing in installments through September 1, 2003.	4,875	--	--	4,875
Orange County Development **Agency Revenue Bonds:** Date Issued: August 1, 1993 to refund prior September 1, 1987 bond issue Interest Rate: 3.25% to 6.20% Original Amount: $57,965 Maturing in installments through September 1, 2023.	55,735	--	(905)	54,830
County of Orange Taxable Pension **Obligation Bonds - Series 1994A:** Date Issued: September 1, 1994 Interest Rate: 6.15% to 8.21% Original Amount: $209,840 Maturing in installments through September 1, 2004.	63,850	--	--	63,850
County of Orange **Refunding Recovery Bonds:** Date Issued: June 1, 1995 Interest Rate: 5.0% to 6.50% Original Amount: $278,790 Maturing in installments through June 1, 2015.	278,790	--	(31,000)	247,790
Orange County Special Financing Authority Teeter Plan Revenue Bonds **Series A through E:** Date Issued: June 1, 1995 Interest Rate: 6.15% to 6.85% (Series A, C-E) Interest Rate: Variable (Series B) Original Amount: $155,000 Maturing in installments through November 1, 2014.	155,000	20,625	(20,625)	155,000

COUNTY OF ORANGE
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 1998
(Dollar Amounts in Thousands)

6. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 1997	Issuances, Discount Amortization and Accretions	Assignments/ Retirements	Balance June 30, 1998
Orange County Public Facilities Corporation, 1996 Recovery Certificates of Participation Series A: Date Issued: June 1, 1996 Interest Rate: 4.20% to 6.00% Original Amount: $760,800 Maturing in installments through July 1, 2026.	$ 760,800	$ --	$ (16,095)	$ 744,705
County of Orange, Taxable Refunding Pension Obligation Bonds - Series A: Date Issued: June 1, 1996 - Current Interest Rate Bonds (CIB) Date Issued: June 12, 1996 - Capital Appreciation Bonds (CAB) To refund prior September 28, 1994 bond issue. Interest Rate: CIB - 7.47% to 7.72% Interest Rate: CAB - 8.09% to 8.26% Original Amount: CIB - $81,680 Original Amount: CAB - $40,000 Maturing in installments through September 1, 2010 (CIB) and September 1, 2016 (CAB).	124,062	4,804	--	128,866
County of Orange, Taxable Refunding Pension Obligation Bonds - Series A: Date Issued: January 1, 1997 - Current Interest Rate Bonds (CIB) Date Issued: January 14, 1997 - Capital Appreciation Bonds (CAB) To refund a substantial portion of the September 1, 1994 bond issue. Interest Rate: CIB - 5.71% to 7.36% Interest Rate: CAB - 7.33% to 7.96% Original Amount: CIB - $71,605 Original Amount: CAB - $65,318 Maturing in installments through September 1, 2010 (CIB) and September 1, 2021 (CAB).	37,577	7,087	(2,000)	142,664
County of Orange, Superior Court ICMS 1997 Certificates of Participation: Date Issued: July 30, 1997 Interest Rate: 4.50% to 5.00% Original Amount: $7,830 Maturing in installments through August 1,2001	--	7,830	--	7,830
Subtotal - General Long-Term Debt Account Group	$ 1,740,087	$ 41,830	$ (77,266)	$ 1,704,651

(Dollar Amounts in Thousands)

6. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 1997	Issuances, Discount Amortization and Accretions	Assignments/ Retirements	Balance June 30, 1998
Enterprise Funds:				
Airport Enterprise Fund **Revenue Bonds:** Date Issued: July 23, 1987, $68,440 refunded on July 1, 1993. Interest Rate: 6.00% to 8.12% Original Amount: $233,676 Redeemed July 1, 1997.	$ 31,685	$ 975	$ (32,660)	$ --
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: December 1, 1988 Interest Rate: 6.80% to 7.875% Original Amount: $88,146 Redeemed by Revenue Bonds dated November 18, 1997.	77,251	194	(77,445)	--
Airport Enterprise Fund **Revenue Bonds:** Date Issued: July 1, 1993 to refund $68,440 of the 1987 Airport Revenue bond issue. Interest Rate: 3.00% to 5.50% Original Amount: $77,022 Maturing in installments through July 1, 2018.	75,336	103	(730)	74,709
Deferred Amount on Refunding (1993 Airport Revenue Bonds)	(9,831)	423	--	(9,408)
Airport Enterprise Fund **Revenue Bonds:** Date Issued: April 2, 1997 to refund $131,490 of the 1987 Airport Revenue bond issue. Interest Rate: 5.00% to 6.00% Original Amount: $137,399 Maturing in installments through July 1, 2012.	137,399	(290)	--	137,109
Deferred Amount on Refunding (1997 Airport Revenue Bonds)	(9,666)	1,062	--	(8,604)

(Dollar Amounts in Thousands)

6. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 1997	Issuances, Discount Amortization and Accretions	Assignments/ Retirements	Balance June 30, 1998
Orange County Public Financing Authority Revenue Bonds: Date Issued: November 18, 1997 to refund $77,445 of the 1988 OCPFC Revenue bond issue. Interest Rate: 4.375% to 5.75% Original Amount: $77,300 Maturing in installments through December 1, 2013.	$ --	$ 79,377	$ --	$ 79,377
Deferred Amount on Refunding (1997 Orange County Public Financing Authority Revenue Bonds)	--	(6,899)	--	(6,899)
Subtotal - Enterprise Funds	$ 302,174	$ 74,945	$ (110,835)	$ 266,284
Internal Service Funds:				
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: July 1, 1986 Interest Rate: 6.75% to 7.50% Original Amount: $36,965 Maturing in installments through July 1, 1998.	$ 6,312	$ 23	$ (3,055)	$ 3,280
Master Lease Schedule No. 2, 1990 Equipment Project Purchaser Certificates: Date Issued: January 3, 1991 Interest Rate: 7.00% Original Amount: $16,475 Maturing in installments through September 1, 2000.	958	--	(499)	459
Subtotal - Internal Service Funds	$ 7,270	$ 23	$ (3,554)	$ 3,739
Total	$ 2,049,531	$ 116,798	$ (191,655)	$ 1,974,674

6. LONG-TERM OBLIGATIONS (Cont'd)

Debt Service Requirements to Maturity

The following is a schedule of all long-term debt service requirements to maturity by fund type and account group on an annual basis (in thousands):

Fiscal Year(s) Ending June 30	Enterprise Funds	Internal Service Funds	General Long-Term Debt Account Group	Total
1999	$ 26,769	$ 3,935	$ 164,827	$ 195,531
2000	26,737	--	164,472	191,209
2001	26,806	--	162,383	189,189
2002	26,621	--	159,382	186,003
2003	26,741	--	132,324	159,065
2004-2027	302,121	--	8,336,210	8,638,331
Total	435,795	3,935	9,119,598	9,559,328
Less: Interest and Unaccreted Principal	(146,465)	(196)	(7,414,947)	(7,561,608)
Deferred Amount on Refunding	(24,911)	--	--	(24,911)
Discount	(2,271)	--	--	(2,271)
Add: Premium	4,136	--	--	4,136
Principal Payable	$ 266,284	$ 3,739	$ 1,704,651	$ 1,974,674

Special Assessment District Bonds

Special Assessment District Bonds consist of Assessment District Bonds and Community Facilities District Bonds.

Assessment District Bonds are issued pursuant to provisions of the Improvement Bond Act of 1915 (Division 10 of the California Streets and Highways Code). Proportionate shares of principal and interest installments sufficient in aggregate to meet annual bond debt service requirements are included on the regular county tax bills sent to owners of property against which there are unpaid assessments. Neither the faith and credit nor the taxing power of the County of Orange or any political subdivision thereof is pledged to the payment of the bonds. Accordingly, such obligations are not included in the accompanying general purpose financial statements.

Community Facilities District Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and the Marks-Roos Local Bond Pooling Act of 1985, and are payable from a portion of certain special taxes to be levied on property within the boundaries of the Community Facility District. Neither the faith and credit nor the taxing power of the County, or any political subdivision thereof is pledged to the payment of the bonds. Except for the special taxes, no other taxes are pledged to the payment of the bonds. The bonds are not general or special obligations of the County nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the special tax fund. Accordingly, such obligations are not included in the accompanying general purpose financial statements.

The County is acting as an agent of the special districts in collecting the assessments and special taxes, forwarding the collections to other paying agents or directly to bondholders, and initiating any necessary foreclosure proceedings. Because the County is not obligated in any manner for special assessment district and community facilities district debt, related transactions are recorded as contributions and distributions within the Investment Trust Fund.

(Dollar Amounts in Thousands)

6. LONG-TERM OBLIGATIONS (Cont'd)

Major capital outlay expenditures relating to these bonds are accounted for in the "Special Assessment Districts and Service Areas" Capital Projects Fund.

Special assessment district and community facilities district bonds outstanding as of June 30, 1998, are $733,264.

7. ARBITRAGE

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not paid to the Federal government at least every five years.

During the current year, the County performed calculations of excess investment earnings on various bonds and financings in accordance with arbitrage regulations. The County has determined that no arbitrage rebate liability exists as of June 30, 1998.

During FY 1997-98, the County made no arbitrage rebate payments.

8. CONDUIT DEBT OBLIGATIONS

From 1980 through 1998 the County issued bonds under the authority of Chapter 7 of Part 5 of Division 3 of the Health and Safety Code of the State of California. The purpose of the bonds are to finance the purchase of single family homes and the construction of multi-family units for low and moderate income families.

The bonds are secured by the property financed and are payable solely from revenue of the projects and payments received on the underlying mortgage loans.

The bonds do not constitute an indebtedness or liability of the County and neither the County, the State of California nor any political subdivision thereof is obligated in any manner for the repayment of the bonds and in no event shall the bonds be payable out of any funds or properties of the County. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 1998 there were 70 series of bonds outstanding, with an aggregate principal amount payable of $1,290,766.

9. LEASES

Commitments Under Operating Leases

The County is committed under various operating leases primarily for office buildings, office equipment and other equipment. The following is an approximation of future minimum operating lease commitments:

	Equipment	Real Property	Total
FY 1998-1999	$ 14,503	$ 27,529	$ 42,032
FY 1999-2000	12,480	26,077	38,557
FY 2000-2001	7,577	24,900	32,477
FY 2001-2002	7,206	22,127	29,333
FY 2002-2003	1,168	21,795	22,963
Subsequent years	--	128,445	128,445
Total	$ 42,934	$ 250,873	$ 293,807

Total rent expenditures for operating leases incurred for FY 1997-98 were $37,245.

(Dollar Amounts in Thousands)

9. LEASES (Cont'd)

Capital Leases

The following is an analysis of property leased under capital leases:

	General Fixed Assets Account Group
Equipment	$ 3,234
Structures and Improvements	618
Total	$ 3,852

The following are the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 1998:

	General Long-Term Debt Account Group
FY 1998-1999	$ 609
FY 1999-2000	585
FY 2000-2001	571
FY 2001-2002	570
FY 2002-2003	570
Subsequent years	772
Total minimum lease payments	3,677
Less: amount representing interest	(639)
Present value of net minimum lease payments	$ 3,038

The majority of the capital lease obligations payable in the General Long-Term Debt Account Group will be financed by the General Fund. Property acquired under capital leases is collateral for the capital lease obligations.

The following is a summary of changes in capital lease obligations for the General Long-Term Debt Account Group:

	Lease Principal Outstanding July 1, 1997	Obligations Incurred During Year	Lease Principal Paid/Reduced During Year	Lease Principal Outstanding June 30, 1998
Total capital lease obligations	$ 3,608	$ 3,234	$ 3,804	$ 3,038

COUNTY OF ORANGE
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 1998
(Dollar Amounts in Thousands)

10. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables by fund are as follows:

	Due From Other Funds	Due to Other Funds
General Fund	$ 100,886	$ 34,752
	100,886	34,752
Special Revenue Funds		
Parking Facilities	45	71
Roads	4,934	4,162
Public Library	43	79
Redevelopment Agency	943	2
Flood Control District	1,720	2,836
Harbors, Beaches & Parks District	3,565	4,746
Service Areas, Lighting & Maintenance Districts	11	11
Other Environmental Management	7,069	3,125
Other Public Protection	5,328	9,654
Community Services	4	463
Taxable Note Repayment	--	408
Designated Special Revenue Funds	12,494	2
Restricted Refinancing Proceeds	9,727	--
Recovery Certificates of Participation	292	6,991
Schedule 1 County - Administered Accounts	18	--
Plan of Adjustment Available Cash	6,114	71
Deferred Compensation Reimbursement	74	2
	52,381	32,623
Debt Service Funds		
Redevelopment Agency Bonds	86	912
Public Facilities Corporation Bonds, Master Lease	--	9
Pension Obligation Bonds	22	9,965
Refunding Recovery Bonds	--	3
	108	10,889
Capital Projects Funds		
Criminal Justice Facilities	734	281
Public Library	26	3
Flood Control District	890	628
Redevelopment Agency	4,637	547
Special Assessment Districts and Service Areas	483	81
	6,770	1,540
Enterprise Funds		
Airport	577	7,432
Waste Management	32,233	1,989
	32,810	9,421

(Dollar Amounts in Thousands)

10. INTERFUND RECEIVABLES AND PAYABLES (Cont'd)

	Due From Other Funds	Due to Other Funds
Internal Service Funds		
Self-Insured Benefits	$ 18	$ 2
Unemployment Insurance	59	2
County Indemnity Health Plan	265	48
Workers' Compensation	191	40
Property and Casualty Risk	493	64
Transportation	3,780	47
Reprographics	19	51
Telephone	1,005	26
	5,830	280
Trust and Agency Funds		
Expendable Trust		
Civic Center Authorities	296	39
Transportation Corridors	1	--
Nonexpendable Trust		
Regional Park Endowment	2	--
Pension Trust		
Defined Benefit Retirement Plan	20	1
Investment Trust		
Investment Pool	907	94
Educational Investment Pool	1	--
Agency		
Unapportioned Tax and Interest Funds	1,133	24,669
Clearing and Revolving Funds	3,865	962
Departmental Funds	22,038	110,661
Trial Court Operations	455	1,572
	28,718	137,998
Total	$ 227,503	$ 227,503

11. INTERFUND TRANSFERS

Operating transfers in totaling $231,737 are comprised of $52,634 into the General Fund, $30,492 into the Special Revenue Funds, $114,856 into the Debt Service Funds, $23,470 into the Capital Projects Funds, $10,180 into the Expendable Trust Funds, and $105 into the Internal Service Funds. Operating transfers out totaling $231,737 are comprised of $121,347 out of the General Fund, $45,875 out of the Special Revenue Funds, $24,125 out of the Debt Service Funds, $15,885 out of the Capital Project Funds, $2,293 out of the Expendable Trust Funds, $21,677 out of the Enterprise Funds, and $535 out of the Internal Service Funds.

Residual equity transfers in totaling $1,705 are comprised of $1,669 into the Special Revenue Funds and $36 into the General Fund. Residual equity transfers out totaling $1,705 are comprised of $1,694 out of the Special Revenue Funds and $11 out of the Debt Service Funds.

(Dollar Amounts in Thousands)

12. DEFICIT EQUITY BALANCES OF INDIVIDUAL FUNDS

The following funds have deficit fund balance/retained earnings:

Fund	Deficit
Internal Service	
Workers' Compensation	$12,431
Transportation	68

The deficit in the Workers' Compensation Fund resulted from an accrual of actuarially-determined, incurred but not reported losses. This fund will receive sufficient funding from other funds to cover disbursements during the years when they become payable. The County's long-term objective is to achieve 100% funding of this deficit.

Although the Transportation Internal Service Fund had a deficit in retained earnings, total fund equity is not in a deficit since it includes contributed capital of $17,505.

13. BUDGETARY BASIS OF ACCOUNTING

Reconciliation of Actual Operations on a Budgetary Basis to Modified Accrual Basis

The accompanying Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on Budgetary Basis presents comparisons of the legally adopted budget (more fully described in Note 2.D) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of resultant basis, timing, and entity differences in the corresponding ending fund balances as reported on the general purpose financial statements for the year ended June 30, 1998 is presented below:

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Fund balances, as reported on the Combined Statement of Revenues, Expenditures/ Encumbrances and Changes in Fund Balances (budgetary basis)	$ 141,973	$ 329,826	$ 264,522	$ 313,305
Adjustments:				
Effects of encumbrances on expenditures (timing differences)	16,631	47,788	--	(63,592)
For nonbudgeted funds (entity differences)	--	--	132,413	--
For accruals and deferrals (basis differences)	4,224	66,775	33,806)	7,088
For fund structure (perspective differences)	--	(3,930)	--	--
Fund balances, as reported on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances (GAAP basis)	$ 162,828	$ 440,459	$ 363,129	$ 256,801

(Dollar Amounts in Thousands)

13. BUDGETARY BASIS OF ACCOUNTING (Cont'd)

Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following areas for the year ended June 30, 1998:

Fund	Account	Appropriations	Expenditures
General Fund:			
	Public Ways and Facilities	$ 29,116	$ 29,188
	Principal Retirement	23,734	27,347
Harbors, Beaches, and Parks District Special Revenue Fund:			
	Principal Retirement	$ 563	$ 3,268

In the General Fund, public ways and facilities expenditures in excess of appropriations occurred in PFRD because the department did not realize all of the interfund billings that they had projected for the budget. Expenditures did not exceed budgeted appropriations at the legal level of budgetary control. The excess of principal retirement expenditures over appropriations, which occurred in the Recovery COP Lease Financing and Capital Acquisition Financing agencies, was offset by a favorable variance between interest expenditures and appropriations. Principal retirement and interest expenditures both fall within the same category at the legal level of budgetary control.

The excess of expenditures over appropriations which occurred in the Harbors, Beaches, and Parks District Special Revenue Fund was offset by a favorable variance between the contributions to non-county government agencies expenditures and appropriations. Gross expenditures did not exceed budgeted gross appropriations at the legal level of budgetary control.

14. RESTATEMENT OF FUND BALANCE

The restatement of the Debt Service beginning fund balance is a result of the following items in the Orange County Special Financing Authority Fund.

* A reduction in fund balance of $10,778 is a result of a liability account for deferred revenue being established for property tax penalties and the basic penalty that accumulate on the unpaid property taxes owed to the Teeter Program. Because the County had previously recognized the property tax penalties as revenue, beginning fund balance has been reduced with the corresponding increase in deferred revenue.

* An increase in fund balance of $2,158 is attributable to property tax penalty revenue that should have been recognized in FY 1996-97. Because the County did not recognize the property tax penalty revenue during FY 1996-97, beginning fund balance has been increased.

(Dollar Amounts in Thousands)

15. RESERVED FUND BALANCES

Fund balances which are not available for appropriation at June 30, 1998 are reserved for the following purposes:

	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency
Assets Not Available for Appropriations:					
Encumbrances	$ 45,955	$ 98,213	$ --	$ 26,176	$ 36
Long-Term Receivables	--	--	25,601	--	--
Imprest Cash Funds	1,390	104	--	--	--
Employees' Retirement	--	--	--	--	2,058
Inventory of Materials and Supplies	367	370	--	1	--
Prepaid Costs	17	--	--	--	--
Land and Improvements Held for Resale	--	--	--	2,546	--
Transportation Corridor Agency Loan	--	11,000	--	--	--
Redevelopment Loans	--	3,383	--	2,934	--
Debt Service	--	--	337,528	--	--
External Investment Pools	--	--	--	--	987,721
Cash Flow Loans	--	1,500	--	--	--
Fund Balances Reserved by Board of Supervisors for a Future Purpose:					
Debt Repayment	16,680	--	--	--	--
Equipment Replacement	--	5,287	--	--	--
Construction	--	10,626	--	--	--
Low and Moderate Income Housing	--	9,506	--	--	--
Land Purchase	--	70	--	27,453	--
OCHA Operations	--	4,600	--	--	--
Loan Program	--	10,913	--	--	--
Future Road Projects	--	12,713	--	--	--
Library Contingencies	--	1,400	--	--	--
General Reserve	--	17,932	--	--	--
Other Reserves	59	50	--	--	--
Reserved Fund Balance	$ 64,468	$ 187,667	$ 363,129	$ 59,110	$ 989,815

General reserves represent a segregation of a portion of fund balance that is restricted to provide for cash flow financing. General reserves, revenue anticipation notes, or a combination of both are used by the County to ensure that sufficient cash is available to meet operating needs each fiscal year until property tax revenues are received in December and April. General reserves are increased or decreased by the County Board of Supervisors as part of the annual budget process.

16. FUND TYPE RECLASSIFICATIONS

Governmental Funds

Effective July 1, 1997, the County reclassified $3,930 from the "Trial Court Operations" grouping in the Special Revenue fund type to the "Trial Court Operations" grouping in the Agency fund type. The reclassification was due to the implementation of Assembly Bill 233 (The Lockyer-Isenberg Trial Court Funding Act of 1997), which shifted responsibility for the courts from the County to the State.

(Dollar Amounts in Thousands)

16. FUND TYPE RECLASSIFICATIONS (Cont'd)

Trust and Agency Funds

Effective July 1, 1997, the County reclassified $849,779 from the "Deposit Fund" grouping in the Agency fund type to the "Investment Pool" grouping ($83,024) and the "Educational Investment Pool" grouping ($766,697) in the Investment Trust fund type, and to the "Departmental Funds" grouping ($58) in the Agency fund type. The reclassifications were due to the implementation of GASB 31, which required governmental entities to report investments in external pools at fair value in an Investment Trust fund type in the balance sheet.

17. ENTERPRISE FUNDS

A. Airport

The Airport Enterprise Fund was established to account for self-supporting services rendered at John Wayne Airport (JWA). The Airport's staff coordinates and administers the general business activities related to JWA, including concessions, fixed base operations, leased property, and aircraft tiedown facilities. Copies of the financial statements may be obtained from Airport Accounting Services.

B. Waste Management

This fund was established to provide monies for the operation, expansion, and closing of existing landfills and the opening of new landfills. Monies are collected through gate fees, which users pay based primarily on tonnage. Copies of the financial statements may be obtained from the Integrated Waste Management Department.

C. Segment Information for Enterprise Funds

	Airport	Waste Management	Total Enterprise Funds
Operating revenues	$ 63,472	$ 88,749	$ 152,221
Depreciation	14,931	4,773	19,704
Operating income	21,417	30,683	52,100
Intergovernmental revenues	2,770	3	2,773
Operating transfers out	(10,500)	(11,177)	(21,677)
Net income (loss)	(566)	29,193	28,627
Current capital contributions	1,573	--	1,573
Plant, property and equipment:			
Additions	16,520	25,073	41,593
Deletions	(785)	(665)	1,450)
Net working capital	35,157	195,933	231,090
Total assets	395,484	420,934	816,418
Bonds and other long-term liabilities	193,806	213,824	407,630
Total equity	162,927	150,405	313,332

(Dollar Amounts in Thousands)

18. WASTE DISPOSAL SITE CLOSURE AND POSTCLOSURE COSTS

State laws and regulations require the Integrated Waste Management Department (IWMD) to place final covers on its landfill sites when the landfills stop accepting waste and to perform certain maintenance and monitoring functions at the site for a minimum of 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date each respective landfill stops accepting waste, IWMD is required by GASB 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs,* to report a portion of these closure and postclosure care costs as an operating expense in each period based on the landfill capacity used as of each balance sheet date.

All active waste disposal sites are owned by IWMD, with the exception of the Santiago Canyon site, which is leased. In 1990, IWMD closed its Coyote Canyon landfill as this site had reached its maximum capacity.

The $141,346 reported as the balance of the landfill closure and postclosure care liability at June 30, 1998 represents the cumulative amount accrued based on the percentage of the landfill capacity that has been used to date of 50% less actual costs disbursed related to the closure of the Coyote Landfill. IWMD will recognize the remaining estimated cost of closure and postclosure care of $173,207 as the proposed capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal 1998. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. IWMD has landfill capacity permits to operate for 42 more years until the year 2040. With proposed expansion plans, however, IWMD intends to operate the landfills well beyond this date.

In compliance with the California Integrated Waste Management Board, IWMD has elected to make cash contributions to escrow funds to finance closure costs and has executed a pledge of future revenue agreement to assure that adequate funds are available to carry out postclosure care of all landfills. Accordingly, IWMD on an annual basis sets aside cash for the Frank R. Bowerman, Olinda Alpha, Prima Deshecha, and Santiago Canyon landfill sites into a restricted escrow fund, held by the County. As of June 30, 1998, $29,937 has been set aside for these costs and is included as restricted assets in the accompanying balance sheet. The state mandated formula under which these contributions are computed will provide for the accumulation of sufficient cash to cover all estimated closure costs when each site reaches maximum capacity. IWMD expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

19. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 1998, major contracts entered into for equipment, land, structures and improvements, and other commitments were as follows, listed by fund type:

	Project Title	Remaining Commitments
Special Revenue:		
	Road Fund	
	Arterial Highway Financing Program (AHFP)	$ 2,879
	OCDA - Mesa Birch Street Improvements	1,732
	Jamboree Road @ Edinger Grade Separation Construction	9,524
	Beach Blvd. - Smartstreet Construction	4,826
	Antonio Parkway, Oso to Ortega Construction	9,708
	Foothill Circulation Phasing Plan	
	Category 3/Backbone 2 Intersection Improvements	1,280
	Alton-Irvine Blvd. to Foothill Transportation Corridor Construction	1,632

(Dollar Amounts in Thousands)

19. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Cont'd)

	Project Title	Remaining Commitments
Special Revenue (Cont'd):		
	Flood Fund	
	Carbon Creek Channel/Coyote Creek Channel	$ 3,826
	Galivan Retarding Basin L03B02	6,114
	East Garden Grove - Wintersburg Channel - I405 to Beach Blvd.	6,499
	Harbors, Beaches & Parks	
	Newport Harbor Headquarters Building	2,356
	Upper Newport Bay General Development Plan - Phase 1	3,223
	Upper Newport Bay Sediment Control	4,227
	Subtotal	57,826
Capital Projects:		
	Criminal Justice Facilities	
	Theo Lacy Jail Expansion	15,914
	Irvine Coast Assessment District	
	Upper Loop Road Expansion	2,604
	Subtotal	18,518
Enterprise:		
	Airport	
	Noise Monitor System	1,096
	Terminal Parking Structure Expansion	18,882
	Airside Pollution Benefit Structures	2,313
	Airport System Master Plan	3,686
	Integrated Waste Management	
	Olinda - Offsite Access Road Design & Construction	3,800
	Olinda Mass Excavation Phase 2	2,675
	Olinda Offsite Access Road Construction	1,100
	Olinda Offsite Access Road Acquisition Relocation	1,100
	Olinda Construction Maintenance Quality Assurance/Quality Control	2,000
	Prima Zone 1 Phase A&B Cost Management/Control Quality Assurance/Archeo-Paleo Services	2,700
	Prima Zone 1 Phase A Construction Mass Excavation	5,480
	Frank R. Bowerman Goundwater Protection Phase V	9,028
	Frank R. Bowerman - Phase VB & Construction Management Quality Assurance/Quality Control	1,800
	Subtotal	55,660
	Total	$ 132,004

19. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Cont'd)

In addition, the County is involved in the Santa Ana River Mainstem Project, a major flood control project designed to prevent the type of devastating damage caused by large-scale flooding which occurs on the average of every one hundred years in the Santa Ana River flood plain. The Federal Government, Orange County Flood Control District (OCFCD), San Bernardino County Department of Transportation/Flood Control District, and Riverside County Flood Control & Water Conservation District are cost sharing the estimated total project cost of $1,300,000. The OCFCD has currently estimated its share to be $413,000 for acquisition of real property rights for construction of the project, relocation of designated roads, bridges, trails, channels and utilities, and construction cost share contributions. This estimate is based on recent indication of support by the U.S. Army Corps of Engineers for the Federal government to finance up to an estimated $90,000 of the Prado Dam real estate costs, subject to Federal appropriations to do so. The cost of the project exceeds OCFCD revenues available for facility improvements. The project has been authorized by the State Legislature, making it eligible for State Flood Control Subventions (reimbursement of 70% of OCFCD eligible expenditures). The State presently has $21,000 budgeted for the OCFCD's Santa Ana River Mainstem Project. These funds can only be disbursed to the OCFCD after claims are reviewed and approved by the State Department of Water Resources (DWR). Once a claim is reviewed and approved by the DWR, only 90% of the eligible expenditures can be received if funds are available, and the remaining 10% after an audit by the State Controller's Office. To date, the OCFCD has spent approximately $185,000, submitted $119,000 in claims for reimbursement, and has received $49,900. The County does not recognize revenue due to the uncertainty of DWR eligibility approval of the reimbursement and due to the typical review completion time period of five to seven years after claim submission.

20. SELF-INSURANCE

The County is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment; salary continuance; and providing health benefits to employees, retirees and their dependents. The County has chosen to establish internal service funds (ISFs) where assets are set aside for claim settlements and judgments associated with such losses.

The Workers' Compensation ISF addresses the risks related to employee injury through its Safety Program, which is responsible for injury and illness prevention, and the Workers' Compensation Program, which ensures that all benefits are properly provided and administers the contract for the third party workers' compensation claims administration. Workers' compensation claims are self-funded up to $5 million. A commercial insurance policy was purchased this year which provides up to an additional $5 million in coverage.

The Property and Casualty Risk ISF is responsible for managing losses related to torts; theft of, damage to and destruction of assets, errors and omissions, civil rights claims, and natural disasters. Tort liability is also self-insured up to $5 million. Commercial insurance is purchased for property and other risk exposures. Additional excess liability insurance was purchased this year to provide up to an additional $15 million in liability coverage.

Independent actuarial studies are secured annually for these ISFs. The unpaid claims liabilities included are based on the results of those annual actuarial studies and include amounts for loss adjustment expenses and claims incurred but not reported. Claim liabilities are calculated considering inflation, claims cost trends including frequency and payout of settlements and judgments, interest earnings, and changes in legal and economic factors.

All County departments that have employees contribute to the Workers' Compensation Fund according to the State Controller's method of cost allocation based on employee classifications and claims experience. All departments that have any loss experience in property or casualty are similarly charged for their pro rata share of the ISF costs.

The County has also established the Unemployment Insurance ISF, which covers all employees, and the County Indemnity Health Plans and Self-Insured Benefits ISFs, which provide health, dental and salary continuance for a portion of its employees. The County pays through the State of California the standard unemployment benefits. The health insurance coverage is up to $1 million for each covered employee or dependent.

Revenues of the ISFs, when combined with current reserves and future contributions, are expected to provide adequate resources to meet liabilities as they come due.

(Dollar Amounts in Thousands)

20. SELF-INSURANCE (Cont'd)

Changes in the balances of claims liabilities during the past two fiscal years for these self-insurance funds are as follows:

	Workers' Compensation	Property & Casualty Risk	Health & Other Insurance Benefits	Total
Unpaid Claims, Beginning of FY 1996-97	$ 31,328	$ 42,718	$ 7,555	$ 81,601
Claims and Changes in Estimates	22,432	18,454	30,926	71,812
Claim Payments	(22,760)	(16,172)	(30,836)	(69,768)
Unpaid Claims, End of FY 1996-97	31,000	45,000	7,645	83,645
Claims and Changes in Estimates	14,235	6,139	28,971	49,345
Claim Payments	(12,801)	(6,924)	(28,250)	(47,975)
Unpaid Claims End of FY 1997-98	$ 32,434	$ 44,215	$ 8,366	$ 85,015

There is an additional $1,556 in the General Fund for claims payable to management employees for unreimbursed medical expenses, accidental death and dismemberment insurance, health insurance, professional organization fees and, in lieu of the aforementioned, actual cash disbursements.

The reduction in the overall cost of workers' compensation claims for this period reflects successes in returning employees to work faster and fewer significant settlements. This is not believed to be part of a downward trend, but an unexpected fluctuation in claim experience and cost resulting from the elimination of a large backlog in FY 1996-97 by the new management at the third party administrator.

The County's loss frequency has steadily decreased over recent years due to ongoing impacts of the Fire Department leaving the risk retention program and several city incorporations which removed some of the County's risk exposure. Additionally, the fast tracking of lawsuits in the court system reduced pressure on the County to settle claims, resulting in fewer lawsuits being filed against the County.

21. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS

The County records estimates of liabilities for litigation and claims expected to be paid primarily from the General Fund. Estimated liabilities for litigation and claims totaling $1,182 have been recorded in the General Long-Term Debt Account Group at June 30, 1998, as none of these liabilities are expected to be liquidated with expendable available financial resources.

Arthur Blaser v. Orange County. Arthur Blaser, plaintiff, has filed a complaint that he has been excluded from jury service because he is wheelchair-bound and that this is a violation of the Americans with Disabilities Act (ADA). Prayer of Complaint, however, seeks broad order to require Countywide compliance with all aspects of Title II of the ADA. The County acknowledges that it must comply with the ADA and contends that it is making reasonable progress. Although the Complaint does not mention any damages, an order requiring immediate and full compliance with Title II of the ADA could result in significant but unknown costs to alter existing County facilities. The County is working to settle the case with an outline and a plan to become compliant with ADA requirements.

21. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Cont'd)

Sparks Pit Landfill Regulatory Action. Located in the City of Anaheim, Sparks Pit is a landfill formerly leased to and operated by the County. The State Water Board and other regulatory agencies are seeking certain improvements to the site to mitigate possible groundwater contamination. In addition, the regulators may require the installation of a landfill gas system. It is likely that the County will incur costs as a result of these regulatory actions. Although the ultimate costs, if any, are unknown, they may be significant. However, the County's Chapter 9 discharge may prove to be an absolute defense to this matter. The County is aggressively seeking to join other parties who participated in past operations of the site to share in the costs of mitigation. At this early stage of the regulatory actions, it is not possible to predict the outcome of these actions or the success of the County's attempt to join other responsible parties.

Litigation Against Recovery Statutes. On December 18, 1996, the County was named as one of the defendants in the "White Complaint," which seeks a judicial declaration that, among other things, the County's bankruptcy Recovery Statutes (see Note 1) are unconstitutional and violate State law. The White Complaint also seeks to enjoin further implementation of the Recovery Statutes and order the return of all monies transferred in accordance with the Recovery Statutes, plus interest. The County believes that the Recovery Statutes are valid, and that they are distinguishable from the Los Angeles County legislation considered in *Veltman v. State of California*, where the court ruled that a State statute transferring certain funds to the County of Los Angeles that otherwise would be directed to the Los Angeles Metropolitan Transportation Authority violated California Constitution Article IV, Section 16(b). On August 8, 1997, the County's demurrer to the White Complaint was sustained without leave to amend. The plaintiff's appeal of the trial court decision in favor of the County's position has been briefed and awaits oral argument.

Goldman, Sachs v. County of Orange. In December 1996, the Orange County Transportation Authority (OCTA) filed a lawsuit against Goldman, Sachs & Co. ("Goldman") and related defendants seeking damages for, among other things, negligence in connection with investment banking and other services performed by Goldman for the OCTA. On August 13, 1997, in the action pending in Los Angeles Superior Court, *OCTA v. Goldman, Sachs*, Goldman filed a cross-complaint against the County, maintaining that the County should share in the payment of any judgment against Goldman and that the County should indemnify Goldman for any losses. In Goldman's complaint against the County, Goldman alleges that the OCTA seeks over $417,000 from Goldman in that action.

On September 12, 1997, the County removed the cross-complaint against the County to Federal Bankruptcy Court. On or about September 25, 1997, Goldman filed a motion for an order remanding the cross-complaint back to the Los Angeles Superior Court. The Bankruptcy Court denied Goldman's motion for remand, and retained jurisdiction over the cross-complaint.

On February 4, 1998, the Bankruptcy Court entered its order granting the County's motion for summary judgment against Goldman on its claims against the County. Goldman has appealed the judgment against it to the United States District Court. In addition, summary judgment against the OCTA and in favor of Goldman on the OCTA's claims against Goldman was entered in the *OCTA v. Goldman, Sachs* matter pending in Los Angeles Superior Court. The OCTA has appealed from that judgment. The County believes that the Goldman cross-complaint is baseless and intends to vigorously defend itself.

Claims Asserted Against Former and Current Employees. In an action arising out of the Orange County bankruptcy, BA Securities, Inc., filed a third party complaint for indemnification against two former County employees, and one current employee. The third party complaint has not been served insofar as the County is aware. The County believes that the filing of the third party complaint violates the discharge and injunction orders of the Bankruptcy Court and of the Plan and will file a complaint seeking damages and seeking to enjoin prosecution of the matter.

22. OTHER CONTINGENCIES

In addition to the accrued liabilities for self-insurance claims incurred but not reported and other litigation and claims described previously, the County is also a defendant in numerous other lawsuits and claims arising from, among other things, breach of contract and tax disputes. Although the aggregate amount asserted in such lawsuits and claims is significant, County management believes that the ultimate outcome of these matters will not have a significant effect on the financial position or results of operations of the funds of the County.

22. OTHER CONTINGENCIES (Cont'd)

Grant monies received from federal and state sources are subject to audit by these agencies to determine whether expenditures are in compliance with the respective grant provisions. County management does not believe that a material liability will result from these audits.

The County is currently discussing its claiming methodology for retirement costs with the State Controller's Office and the Department of Health and Human Services. In FY 1997-98, relying on Federal claiming provisions, the County elected to postpone credits to departments based on the prepayment of obligations made by the County. The County has been claiming its retirement costs, which include the costs of debt service on the County's POBs for reimbursement from Federal and State funded programs. The County retirement costs have been reduced by changes in assumptions, reductions in workforce, including the transfer of the Fire Department to the Fire Authority, and better than expected earnings of the retirement system. The County developed a schedule in FY 1996-97 to provide a credit to funding sources in the same manner as increases in costs had previously been amortized. A change in methodology could result in short-term costs and long-term savings. These short-term costs include potential payments for FY 1996-97 and FY 1997-98 of approximately $5,000. The Board of Supervisors has set aside $18,700 for possible retroactive payments (See Note 1).

As the owner and operator of a number of landfill sites, IWMD has potential exposure to environmental liability. IWMD may be required to perform corrective action for contaminate releases at any of its inactive landfills, even if the County no longer owns the site. IWMD is in the process of evaluating its potential exposure to remediation liabilities on closed landfill sites. On the basis of information currently available to management, IWMD management believes it has sufficient reserves for known and anticipated remediation costs.

On August 14, 1997, the Supreme Court of the State of California issued a decision in a case entitled *Ventura County Deputy Sheriffs Association vs. Board of Retirement of Ventura County Employees' Retirement Association*. On October 1, 1997, the decision of the California Supreme Court became final. The Supreme Court held that a county retirement system operating under the provisions of the County Employees Retirement Law of 1937 must include certain types of cash incentive payments and additional pay elements, received by an employee, within the employee's "compensation earnable" and "final compensation" when calculating the employee's retirement benefit.

The County is currently in litigation with OCERS. The County maintains that OCERS improperly applied a new definition of compensation to existing retirees. The County also maintains that OCERS improperly allocated excess earnings of the retirement system. Should the County be successful in its litigation, it could realize reductions in retirement obligations of approximately $175,000 or in excess of $15,000 per year for 30 years. Employee organizations have brought legal action to expand on the definition of "compensation earnable" adopted by OCERS. Should employee organizations be successful in litigation, County costs could increase by an undetermined amount.

23. DEFINED BENEFIT PENSION PLANS

Orange County Employees Retirement System

Plan Description. Substantially all County employees participate in OCERS, a cost-sharing multiple-employer public employee retirement system established in 1945 under the County Employees' Retirement Law of 1937. The employees of several other smaller units of local government also participate in the system and account for approximately 17% of the system membership.

23. DEFINED BENEFIT PENSION PLANS (Cont'd)

OCERS provides for retirement, death, disability, and cost-of-living benefits, and is subject to provisions of the County Employees' Retirement Law of 1937 and other applicable statutes. Members employed after September 20, 1979, are designated as Tier II members. Members employed prior to September 21, 1979, are designated as Tier I members; the establishment of Tier II resulted in a reduced allowance beginning at age 50. The retirement allowance is based upon the member's age at retirement, final compensation, and the total years of service under the System. If an employee terminates before rendering five years of service, the employee forfeits the right to receive benefits and is entitled to withdraw employee contributions made together with accumulated interest. If an employee terminates after five years of service, the employee may elect to leave the accumulated deposits in the retirement fund and be granted a deferred retirement allowance at the time the member would have been entitled to the allowance if service had been continued.

OCERS issues a stand alone annual financial report, which can be obtained by writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701 or by calling (714) 558-6200.

Funding Policy. In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employees' contributions and with investment income, will fully provide for all employees' benefits by the time they retire. From January through September 1997, employer's contributions as a percentage of covered payroll were 2.86% for General members and 24.43% for Safety members. From October 1997 through June 1998, employer's contributions were 2.32% for General members and 23.54% for Safety members.

Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. For Tier I members, the normal rate of contribution is based on the member's age at entry in OCERS, and is calculated to provide an annual annuity equal to 1/200 of the member's "final compensation" for each year of service rendered at age 60 for General members, and at the age of 50 for Safety members. For Tier II General members, the rate of contribution is calculated to provide an annual annuity equal to 1/120 of the member's "final compensation" for each year of service rendered at age 60. For Tier II Safety members, the rate of contribution is calculated to provide an annuity equal to 1/100 of the member's "final compensation" for each year of service rendered at age 50.

The Pension Liability or Asset at transition was calculated in accordance with the provisions of GASB Statement No. 27 and was zero at transition and the effective date.

The County's 1997 contribution represented 73.6% of total contributions required of all participating entities.

In September 1994, pursuant to an agreement with OCERS, the County issued $320,040 in taxable Pension Obligation Bonds (POB). The Bonds were issued to refund the prior service portion of the County's retirement obligations. OCERS established a County Investment Account (Investment Account) with the POB proceeds in the amount of $318,300. For FY 1995-96, the County reached an agreement with OCERS to use the Investment Account to fund both the normal cost and UAAL portions of the County's required employer retirement contributions. In 1996, the County and the Retirement Board entered into an agreement for the use of the Investment Account over a new funding period of 20 years. The agreement provides for the Investment Account to be used to fund the County's employer contribution in a decreasing percentage each year. In 1997, the Investment Account funded approximately 90% of the County's employer contribution and the County made cash contributions for the remaining 10%. In subsequent years the portion of normal costs paid from bond proceeds would be adjusted by a reduction of 5% of normal costs each year for 20 years, increases or decreases in relation to changes in the UAAL, and returns on investments which varied from anticipated.

(Dollar Amounts in Thousands)

23. DEFINED BENEFIT PENSION PLANS (Cont'd)

The following table shows the County's required contributions and the percentage contributed, for the current year and each of the two preceding years:

Year Ended	County Cash Contribution	OCERS Investment Account Contribution	Total Annual Required Contribution	Percentage Contributed
06/30/96	$ --	$ 57,395	$ 57,395	100%
06/30/97	1,879	44,974	46,853	100%
06/30/98	2,797	41,259	44,056	100%

Defined Benefit Retirement Plan

In January 1992, the County adopted the 1992 Defined Benefit Retirement Plan. The plan is a single-employer defined benefit retirement plan for employees performing services on the basis of less than half-time or as extra help. The plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. Eligible employees of this plan are not covered by OCERS.

The plan's financial statements are prepared using the accrual basis of accounting. Plan participant and County contributions are recognized in the period in which contributions are due. Investments are reported at fair value as further described in Note 2.F and are fully invested in the County Pool as described in Note 3.

In November 1994, GASB issued Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. This statement establishes financial reporting standards for defined benefit pension plans and for the notes to the financial statements of defined benefit contribution plans of state and local governmental entities. This statement became effective for periods beginning after June 15, 1996. The County has adopted the provisions of this statement beginning with the year ended June 30, 1998. The plan's adoption of this statement had no material effect on the general purpose financial statements.

The normal retirement benefits for a participant who retires on or after the normal retirement date is a monthly amount equal to one-twelfth of two percent of the participant's career earnings during the first 30 years of credited service. The normal retirement date is the first day of the month coinciding with or immediately preceding a participant's 65th birthday. The County Board of Supervisors has full authority to amend or establish plan or benefit provisions at any time in accordance with the plan.

As of June 30, 1998, the plan consists of 1,254 active plan participants, ten terminated plan participants entitled to but not yet receiving benefits, and four retirees receiving benefits.

Plan participants are required to contribute between 2.5 and 7.5 percent of their annual covered compensation based upon the participant's attained age as of January 1 of each calendar year. The County may prospectively increase or decrease participant contribution rates by plan amendment effective on the first day of the plan year. The plan actuary advises the County concerning contributions necessary to maintain the plan in sound actuarial and financial condition. Based on the plan actuary's advice, the County determines the amount necessary for contribution to the plan. Since the plan's inception, there have been no County contributions. Plan investment and administrative expenses are charged to the participants and deducted from investment earnings prior to crediting to their account.

23. DEFINED BENEFIT PENSION PLANS (Cont'd)

Orange County Defined Benefit Retirement Plan
Schedule of Funding Progress
(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)- Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/01/94	$ 957	$ 1,023	$ 66	93.5%	$ 10,903	0.6%
1/01/98	$ 2,058	$ 2,178	$ 120	94.5%	$ 10,862	1.1%

Schedule of Employer Contributions
(Dollar Amounts in Thousands)

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1998	$ 3	0%	$ 3

There were no annual required contributions for the previous two fiscal years ended June 30.

The above schedules include information determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	1/01/1998
Actuarial cost method	Unit Credit
Amortization method	Level dollar open
Remaining amortization period	30 years
Asset valuation method	Fair Value
Actuarial assumptions:	
Investment rate of return	8.0% per annum, net of expenses
Projected salary increases	5.5% per annum
Includes inflation at	4.5% per annum
Cost-of-living-adjustments	None

24. POSTRETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the County makes health care benefits available for substantially all retired employees. These health care benefits are funded by insurance premiums paid by retirees enrolled in the health plans. The County recognizes the cost of these benefits by reporting as expenditures in various funds periodic insurance premiums and claims, which were $9,061 in FY 1997-98.

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25. DEFERRED COMPENSATION PLAN

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (Deferred Compensation Plan), which permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or certain other cases.

The Small Business Job Protection Act of 1996 changed the Internal Revenue Code Section 457 by protecting participant assets from creditors of a bankrupt or financially troubled public jurisdiction. To effect this change the employers must comply with the provisions of this act by January 1, 1999. On January 1, 1998, the County complied with the act by transferring ownership of all Plan assets from the County to the individual participants. This was accomplished by placing all Plan assets in trust accounts for the exclusive benefit of the participants and their beneficiaries. As a result, the Plan assets are no longer shown in the County's financial statements.

Prior to this change, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights were (until paid or made available to the employee or other beneficiary) solely the property and rights of the County (without being restricted to the provisions of benefits under the plan), subject only to the claims of the County's general creditors, of which plan participants were included. Participants' rights under the plan were equal to those of general unsecured creditors of the County in an amount equal to the fair market value of the deferred account for each participant.

At June 30, 1998, assets with a current market value of $280,124 were in the Plan's trust accounts.

26. YEAR 2000 COMPLIANCE

The County's operations, like those of many governmental and business entities, may be impacted by the inability of certain computer programs and electronic systems with embedded microprocessor chips to recognize calendar dates beyond the year 1999. Unless such programs or microprocessors are modified or replaced prior to the Year 2000, they may not function properly after December 31, 1999, causing system failures or miscalculations that could disrupt the County's operations.

The County has assessed the status of compliance with respect to virtually every County department, and has developed a plan to modify or replace any non-compliant system in a manner that will eliminate significant operational problems. While some systems have already been determined to be in compliance, several departmental systems are not scheduled to be completed until late 1999.

As part of the County's Y2K compliance, the County has contacted the various financial institutions that provide trustee and paying agent services for the County to determine their Y2K readiness. These institutions, The Bank of New York, U.S. Trust, U.S. Bancorp, and State Street Bank and Trust, process and make debt service payments to bondholders of County debt. It is important that their computer systems are Y2K compliant in order for County debt service payments to be processed and paid on a timely basis. Based on information received from these institutions, it has been determined that each institution has a strategic plan in place to identify and resolve Y2K issues and to have modifications in place by December 31, 1998. While the County cannot validate their progress or actual accomplishments, each institution believes they will be compliant by December 31, 1999. This meets the recommendations of the Federal Financial Institutions Examination Council and allows for a full year of testing.

The County has entered into contracts with several vendors and consultants in order to become compliant. The amount of resources committed for these contracts at June 30, 1998 is $14,318.

The costs of the proposed modifications and replacements and their expected completion dates are based on certain assumptions and the County's best estimates. There can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause a different outcome include, but are not limited to, the availability and cost of trained personnel, the ability to locate and correct all relevant computer codes and reliance on manufacturer's representations with respect to compliance. If the proposed modifications or replacements do not occur as anticipated, the issue could have a material impact on the County's operations.

(Dollar Amounts in Thousands)

26. YEAR 2000 COMPLIANCE (Cont'd)

The following tables identify the mission-critical systems within the County, specify the stages of compliance at June 30, 1998, and summarize what additional work is still required in order to become compliant. The stages of compliance to address Y2K issues are as follows:

- Awareness stage - Establishing a budget and project plan for dealing with the Y2K issue.
- Assessment stage - Identifying the systems and components for which Y2K compliance work is needed.
- Remediation stage - Making changes to systems and equipment.
- Validation/testing stage - Validating and testing the changes that were made during the remediation stage.

MAINFRAME SYSTEMS
The following systems run on the IBM and Unisys mainframe computers in the Data Center.

Mission-Critical System	Description	Stage of Compliance @ 6/30/98	Additional Work Required for Compliance
CAPS (County Accounting & Personnel System)	County's financial, human resources and payroll system	Remediation	Scheduled for implementation June 1999
ATS (Assessment Tax System)	Process assessment tax roll	Validation/Testing	Multi Year phased implementation of new system. Written to be Y2K compliant
Animal Shelter Licensing System	Impound, bite tracking, licensing and officer service tracking	Remediation	Existing system will be remediated pending replacement
MAPPS (Marshal's Accounting, Payroll and Personnel System)	Marshal financial, personnel and payroll system	Remediation	Unisys system is being replaced by a LAN based client-server system. Scheduled for implementation July 1999
ACPS (Marshal's Automated Civil Process System)	Warrant tracking	Remediation	Unisys system is being replaced by a LAN based client-server system. Scheduled for completion February 1999
Probation Accounts Receivables	Accounts Receivables	Remediation	Scheduled for completion October 1999
WCDS	Social Services Agency Welfare Case Data	Validation/Testing	
GIS/GAIN	Social Services Agency case management systems	Validation/Testing	
CWS/CMS	Social Services Agency welfare systems	Remediation	Replacement scheduled December 1998

(Dollar Amounts in Thousands)

26. YEAR 2000 COMPLIANCE (Cont'd)

DEPARTMENT SYSTEMS
The following systems run in County departments and agencies.

Mission-Critical System	Description	Stage of Compliance @ 6/30/98	Additional Work Required for Compliance
CUBS	Auditor-Controller Collections System	Remediation	Affected modifications implemented by 1/31/99
SL-100 Telephone Switch	CEO/ Information and Technology System	Remediation	Upgrade scheduled for completion 12/31/98
Case Management System	Community Services Agency's case management	Remediation	Replacement System scheduled for implementation June 1999
Family Support Case System	District Attorney family support system	Remediation	Existing system will be remediated pending replacement
Specimen Tracking System	Public Health Laboratory specimen tracking	Remediation	Replacement scheduled December 1999
OTIS	Housing & Community Development application	Remediation	Replaced September 1998. Validation/testing in 1999
Access Control	John Wayne Airport(JWA) security access system	Validation/Testing	
Badging	ID system for JWA employees, tenants and other authorized personnel	Validation/Testing	
Airfield Lighting	Lighting for JWA airfield runways and taxiways	Validation/Testing	
Terminal Lighting	JWA interior and exterior lighting	Remediation	New PC required. Replacement scheduled January 1999
Terminal Building Control	JWA boiler, chiller and HVAC systems	Remediation	New PC and Control Boards. Replacement scheduled February 1999
Fire Alarm	JWA terminal/airfield alarm system	Remediation	New PC required. Replacement scheduled January 1999
FIDS/BIDS	JWA flight information system	Validation/Testing	
Back-up Generators	JWA terminal/airfield emergency back-up systems	Remediation	Scheduled for completion by April 1999
SWABBIE	Landfill fees deferred payment billing and accounts receivable system	Remediation	Replacement scheduled July 1999

(Dollar Amounts in Thousands)

26. YEAR 2000 COMPLIANCE (Cont'd)

DEPARTMENT SYSTEMS (Cont'd)
The following systems run in County departments and agencies.

Mission-Critical System	Description	Stage of Compliance @ 6/30/98	Additional Work Required for Compliance
Library Systems	Orange County Public Library circulation system	Validation/Testing	
PERMITS	Planning & Development Services property permit system	Remediation	Replacement scheduled December 1998
Parking Access Systems	Public Facilities & Resources county parking access systems	Remediation	All affected systems will be replaced by July 1999
CAD	Sheriff's computer aided dispatch system	Remediation	Scheduled for completion April 1999
AJS	Sheriff's automated jail system	Remediation	Scheduled for completion September 1999
AWSS	Sheriff's automated warrant system	Remediation	Scheduled for completion August 1999
Fund Accounting, and Portfolio Accounting	Treasurer-Tax Collector	Validation/Testing	
Remittance Processing and Cashiering System	Treasurer-Tax Collector	Remediation	Scheduled for completion January 1999
Cleared Check Interface	Treasurer-Tax Collector	Validation/Testing	Banks will interpret date. No remedial action required

The above tables do not provide a complete list of all the computer systems within the County, but rather only provide information about the mission-critical systems that could significantly affect the operations of the County. The County has four broad categories of computer systems, which include mainframe systems, departmental systems, interfaces, and embedded chips. All mainframe and departmental systems within the County have completed the Awareness Stage and the Assessment Stage of compliance. The County has completed the Awareness and Assessment Stages for all interfaces. Interfaces are in the Remediation and Validation/Testing Stages. Validation and testing of interfaces is dependent upon the coordination and cooperation of outside entities. The County has been proactive in communicating with these entities (Federal and State governments, banks, health, welfare and benefits providers, Orange County Retirement System). The County has also completed the Awareness Stage for embedded chips which are systems that are controlled by a computer chip or a desktop computer. Examples of these systems include building air conditioning and heating, security access systems for buildings or parking lots, and voice mail systems. This is a complex problem because the presence of embedded chips in computer systems is not always apparent. Remediation, Validation and Testing is an ongoing process. Resources that are available for research and remediation include the State Department of Technology's "California Embedded Systems Center", which is available to authorized governmental entities on the internet and contains an online database of the status of microprocessors and chips.

26. YEAR 2000 COMPLIANCE (Cont'd)

The County has been working on the Y2K problem since 1995. All systems have been inventoried and are in the stage of remediation. Some systems are in the validation/testing phase. The County plans to be Y2K compliant by December 1999. As part of the ongoing, scheduled monitoring of progress, contingency plans will be initiated in March 1999 for any systems that appear to be non-compliant at that time.

27. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 1998:

A. Internal Revenue Service Settlement

On September 30, 1998, the County paid the Internal Revenue Service (IRS) $803 in settlement of an IRS finding involving the taxability for Federal tax purposes of the County 1994 Tax and Revenue Anticipation Notes, Series A and B. This payment and the accompanying settlement agreement brings this examination to a close.

B. Teeter Plan Revenue Bonds Remarketing

On November 1, 1998, the mandatory tender of the $32,375 Teeter Plan Revenue Bonds 1995 Series A occurred. Of the original $32,375 Series A bonds, $7,700 were remarketed and have a variable interest rate that will be determined on a weekly basis. The remaining bonds, $24,675, were not remarketed, leaving $130,325 of the original $155,000 still outstanding.